





## Norwegian group to supply 200 missiles to US

By Karen Fossell in Oslo

**NORWAY'S** Norsk Forsvarsteknologi (NFT), the defence contracting company, has secured a \$1.5bn (£870m) contract to supply the US Navy with 200 Penguin anti-ship missiles.

NFT was formed in 1987 out of the defunct state-owned arms maker Kongsberg Vapenfabrikk (KV) which suffered US trade sanctions for collaborating with Japan's Toshiba in supplying Moscow with submarine control systems in violation of CoCom rules.

The missiles will be delivered between 1992 and 1996 and the contract is seen as a breakthrough for NFT in the international market. It also opens doors for further increases in the export of this type of missile to other potential customers such as Spain, Greece and Australia.

The earlier KV started the Penguin missile programme over five years ago, but it was subsequently taken over by NFT when KV was wound down in 1984. KV and the US Navy signed a contract for the start-up of the first 64-series produced Penguin MK2 MOD-7 missiles for SEAHAWK helicopters.

The latest contract with the US Navy was signed last Friday in the US on behalf of the Royal Norwegian Navy, which is the formal supplier to the US Navy, with NFT as subcontractor and a number of Norwegian and foreign subcontractors.

The production contract builds further on the present development contract concluded in 1986 and is divided into a number of production options totalling slightly under 200 missiles.

In addition, there are a number of inspection systems and test equipment with a total economic scope of \$1.5bn. The US Navy's acquisition programme is meant to ensure continuity of production of the Penguin anti-ship missile in Norway until the Royal Norwegian Navy requires new missiles for its fleet during the second half of the 1990s.

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## Multi-party system law passed

By Leyla Boulton in Moscow

**THE** Soviet parliament yesterday adopted long-awaited legislation formally allowing a multi-party system.

The new law was passed after deputies reached an awkward compromise on the key issue of disentangling the Communist Party from the armed forces and the police.

While one camp of deputies favoured total "depoliticisation" - banning party cells from the army and police - the opposing camp, including numerous Communists from the services, fought tooth and nail to retain them.

The result is a fudge which should permit the continued existence of party cells. The new legislation says simply that servicemen and law enforcement officers "shall be guided in their official activities by the requirements of law and will not be bound by the decisions of parties" they happen to belong to.

The Communists in theory paved the way for pluralism at the start of the year, when giving up a "leading role" as enshrined in the constitution. But it has in practice retained control over central and much of local government, as well as enjoying intimate links with the KGB and the armed forces.

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## Yeltsin gets his Mercedes

By Leyla Boulton

**ITS** official Mr Boris Yeltsin, the populist Russian president who shuns official privileges, will swap his humble Soviet Volga for an armoured-plated Mercedes, provided by the KGB.

The 60-year-old politician, who was recently involved in a car crash which some of his supporters saw as an assassination attempt, will become the first Soviet politician to use a foreign car for public duties.

Top Soviet leaders are usually driven around in Zils - black stretch-limousines made in the USSR - while many lower-level politicians use Volgas, plain Soviet saloon cars.

Mr Yeltsin, elected chairman of the Russian parliament in June, originally opted for the simplest model available to him in keeping with his much-publicised criticism of privileges.

He also announced he was doing away with KGB bodyguards as part of his campaign to cut back the powers of the mighty security agency.

However, an official at the Russian parliament said that voters from across the country had sent in countless telegrams demanding tighter security for the president since last month's accident.

The official said the KGB would provide the Russian leader with three Mercedes 500s and a fourth car whose make he could not specify.

He added that Mr Yeltsin had also accepted an offer of 24 armed bodyguards - but he was not sure whether the offer was from the KGB or the Interior Ministry.

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Yeltsin: will swap his humble Volga for armoured-plated luxury

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## Row over subsidised French fibre plant

By George Graham in Paris

**FOUR** European fibre manufacturers are planning to mount a joint protest against the construction of a new polyester fibre plant in the Lorraine region of north-eastern France.

The \$160m (£81.2m) plant, which will produce polyester yarns for reinforcing car tyres, is to be built by Allied Signal, the US engineering and automotive components group, at Longwy, the former steel town.

Lorraine is a major tyre-making region, with Michelin, Kleber and Continental plants. But Hoechst of West Germany, Akzo of the Netherlands, ICI of the UK and Snia of Italy are planning to launch a campaign against the level of subsidy provided for the plant by the French government and the Lorraine regional administration.

Allied Signal says the subsidy amounts to around 20 per cent of the total cost. The four argue that although these subsidies have been approved by the European Commission - Lorraine, which suffered heavily from job cuts in the steel industry, qualifies as a region requiring special aid - they will severely distort competition and put thousands of jobs in nearby factories at risk.

Allied Signal, which plans to break ground on the Longwy site in December or January and have the plant ready for operation early in 1993, says it will employ around 300 people on the site, but will not give production capacity figures for the plant.

Company officials said they preferred not to comment on the complaints of their competitors until they had seen the details of the charges.

The row is reminiscent of the dispute which arose earlier this year over the offer of subsidies to Guardian Glass, the US-owned flat glass company, for the installation of a float glass plant near Nîmes in southern France. Saint Gobain, France's own leading glass producer, argued that Guardian should not receive any higher subsidy than the Ffr52m (£3.1m) it received itself for a Ffr500m-Ffr600m plant opened up last year in southern France.

However, government officials in Paris and Metz yesterday dismissed the complaints about the subsidies being provided for the Allied Signal plant.

They pointed out that Longwy, as a former steel town with high unemployment, is fully entitled to the regional development premium awarded for job-creating projects in depressed areas.

## Warsaw Pact discusses share-out of weapons

By Leyla Boulton

**WARSAW PACT** members yesterday launched their third attempt in a month to share out their conventional weapons, a prerequisite for the successful conclusion of a European arms treaty.

The pact members, agreed on board a number of Deputy foreign ministers and military chiefs of staff of the crumbling, Soviet-led alliance, started a two-day meeting where the main stumbling block was expected to be tank quotas.

Under proposals at disarmament negotiations in Vienna, Nato and the Warsaw Pact would each have 20,000 tanks stationed in Europe.

Two previous meetings, in Bratislava on September 10 and 11, and in Prague two weeks ago, failed to resolve how the Pact's share would be divided among its six members. Agreement has been reached on military aircraft and helicopters but outstanding issues, apart from tanks, are the share-out of armoured vehicles and artillery.

The Soviet Union and its east European neighbours disagree over what percentage of the overall weapons allotment each country may hold.

Moscow's proposal would allow it to control a vast majority for the eastern side. The other Warsaw Pact members, growing away from the Soviet Union as a result of last year's revolutions against communism, want a lower Soviet quota.

The Czechoslovak state news agency CTK said demands for allotment of tanks exceeded the overall ceiling for the Warsaw Pact countries by 450.

Disagreement over the division of weaponry between the Warsaw Pact states could, theoretically, still stall the Vienna talks on cutting conventional weapons in Europe (CFE) and the signature of a European arms treaty planned for the summit of the 34-nation Conference on Security and Cooperation in Europe (CSCE) in Paris on November 15.

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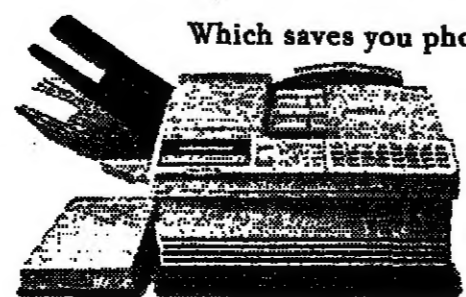
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## FINANCIAL TIMES CONFERENCES

PRODUCT STRATEGIES FOR THE 90s  
15 & 16 October - London

Strategies for product design, development and marketing will be the subject of a high-level forum to be arranged by the Financial Times in association with the Design Management Institute.

Manufacturing companies in Europe, North America and the Middle East are engaged in a product race of increasing intensity. Relentless international competition, soaring development costs and shorter product lives are stepping up the pressures all the way down the line, from research to final sales. This forum will bring together an international panel of top industry speakers from such companies as The Sony Corporation, Volvo, Braun and Rank Xerox to look at every aspect of the management of design and development, particularly the integration, marketing, design and manufacturing specialists.

A major feature of the programme will be case studies with speakers from Digital Equipment and Texas Instruments sharing their experiences of product development and strategy.

EUROPEAN BUSINESS FORUM - BUSINESS IN CENTRAL AND EASTERN EUROPE  
26 & 27 November - Rome

Once every two years the Financial Times arranges a high level European Business Forum in Rome. Developments in the Soviet Union and in Central and Eastern Europe will be the principal theme for this year's agenda. The conference will interpret political and economic developments and will provide an authoritative briefing on the prospects for manufacturers, bankers and other business leaders as the former East Bloc economies open up.

Dr Guido Carli, Italian Treasury Minister has agreed, in principle, to give the keynote opening address on the political and economic scene in Europe over the next ten years and other contributors include: Ambassador Renato Ruggiero, Italian Foreign Trade Minister; Professor Ivan Ivanov, Soviet State Foreign Economic Commission; Dr Václav Klaus, Minister of Finance, Czechoslovakia; Mr Ferenc Rabár, Hungarian Minister of Finance; Mr Viktor Geraschenko, Gosbank; Professor K. Lotkowski, Advisor to the Polish Finance Minister; Mr Horst Krenzel, Commissioner of the European Communities; Dr Franco Nobili, IRI; Dr Axel Lebsahn, Deutsche Bank; Ing Paolo Cantarella, Fiat Auto; Dr Sergio Siglienti, Banca Commerciale Italiana and Sir Frank Cooper, N M Rothschild & Sons.

PETROCHEMICALS IN EUROPE - THE NEW SCENARIO  
28 & 29 November - London

The Financial Times second Petrochemicals conference brings together a distinguished panel of top industry executives to debate the key issues of current concern. After seven years of strong growth, the international petrochemicals business enters the 1990s facing several pressures and a period of uncertainty and volatility. The conference will examine supply and demand, sustaining profitability, the challenges and opportunities in Eastern Europe and the impact of world oil prices on petrochemical operations. Mr Tim Gordon, Chemicals Co-ordinator of Shell International Chemical Company will deliver the opening address and speakers taking part include: Mr Bryan Sanderson, Chief Executive Officer, BP Chemicals; Sir Denis Henderson, Chairman of ICI; Mr Abdulaziz Ibrahim Al-Audali, President of Saudi Methanol Company; M. J. Fuschal, President of Atochem; Mr Simon de Bree, Member of the Board of Managing Directors, NV DSM and Drs Hugo Lever, Director General of CEFIC.

All enquiries should be addressed to:

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## Hitachi and Motorola end chip patent row

MOTOROLA, the biggest US semiconductor maker, says it has reached a "satisfactory settlement" of its long-running microprocessor patent dispute with Hitachi of Japan. The settlement ends a legal battle that has threatened to disrupt supplies of Motorola microprocessor chips to US computer manufacturers. Details of the out-of-court settlement were not disclosed, but Motorola said both companies will ask the US courts to dismiss suits they have brought against each other.

Mr James Norling, Motorola semiconductor products sector president, said Motorola was pleased with the settlement. "Our unwavering goals were to protect Motorola's intellectual property, and assure our customers an uninterrupted supply of Motorola's leadership microprocessors. This settlement achieves both goals."

At issue was Motorola's claim that Hitachi infringed patented microprocessor technology used in its 68030 chip, a key component in Hewlett-Packard computer workstations and Apple Computer personal computers as well as several smaller computer makers' products. Motorola customers had urged an end to the dispute. Earlier, a Texas court ordered Motorola to halt output and sales of the chip. Motorola won a temporary reprieve from an appeals court, but the potential for serious business interruption has threatened the industry for several months.

Hitachi was also ordered to halt shipments of one of its semiconductor products. The impact of this was less severe, because it is widely used in the US. The orders followed a Texas court ruling that both companies had infringed each other's patents. Motorola had sued Hitachi for patent infringement; Hitachi counter-sued.

Motorola results, Page 30

## WORLD TRADE NEWS

## How to settle trade rows without tears

US and Canada provide a model for patching up differences, writes Bernard Simon

NO PART of the US-Canada Free Trade Agreement has attracted more interest in the deal's two-year life than its innovative provisions to settle cross-border disputes.

Canadian and American exporters and their governments have funnelled a total of 15 cases to bi-national panels set up under the agreement to review decisions by trade tribunals in the two countries. Equally noteworthy, trade experts from countries as diverse as Australia, Mexico, Japan and Israel have been a path to Ottawa and Washington to explore whether the FTA's mechanism can be applied to their own trading relationships.

Quicker and less expensive than court proceedings, the system has allowed the US and Canada to settle some of their thorniest trade disputes with a minimum of political fallout. Although the panels are composed of citizens from both countries, several of their decisions have been unanimous.

The review mechanism may even have encouraged governments to be a little more thorough in their decision-making. The panels appear to have been less deferential than the courts to agencies such as the US International Trade Commission.

Whether the FTA's provisions can be transplanted successfully to trading relationships between other countries is another matter. Mr Elliot Feldman, a Washington trade lawyer, notes that "its success depends so much on the special mutual trust between Canadians and Americans, and an understanding of their respective legal systems".

The agreement provides for two types of review procedure, known as Chapter 18 and Chapter 19 panels.

The Chapter 18 panels are a modified General Agreement on Tariffs and Trade system designed to adjudicate long-running disputes which have inflamed public opinion. Unlike GATT dispute settlement procedures, however, the FTA process sets short, fixed periods for various stages and contains automatic triggers to prevent either party from blocking the process.

Only two disputes have so far been referred to Chapter 18 panels. One was a complaint by US fish processors that while their Canadian counterparts were allowed to buy large quantities of unprocessed Alaskan salmon and herring, Canadian export restrictions barred

the Americans from fish caught in waters off British Columbia.

The other dealt with Canadian objections to US conservation rules on the size of imported lobsters.

The west coast salmon and herring dispute had dragged on for three years before it was referred to an FTA panel. The panel submitted recommendations within three months, which formed the basis for a final negotiated settlement between the two governments.

The lobster panel also came up with proposals (essentially vindicating the US position) which appear to have given impetus to an agreement between the industries in the two countries. The agreement is now awaiting approval by the governments.

The Chapter 19 panels have a narrower focus. They act in place of domestic courts to review whether specific anti-dumping and countervailing duty determinations are consistent with the law of the country where they were made.

The five-member panels are chaired by a lawyer and drawn from rosters of 25 candidates drawn up by each government. The time limit from a request for a review to the panel's decision is 315 days. Decisions are binding.

In what appears to be an indication either of Canadian sensitivity or the vulnerability of decisions by the US Import Administration and International Trade Commission, all one of the 13 Chapter 19 panels set up so far have involved Canadian complaints about US decisions. The single appeal against a Revenue Canada decision, involving alleged dumping of industrial motors, was terminated by the participants before the process was completed.

The cases that have so far come before Chapter 19 panels have dealt with products as diverse as raspberries, chilled pork and steel rails.

Mr Doug Waddell, director-general for US trade policy in the Canadian department of external affairs, says that despite Canada losing several

of the decisions, the Chapter 19 process seems to be working very well.

From a political point of view, the Canadians were especially heartened by a panel's decision last month to refer back to the US Commerce Department three of its four rulings on the extent of subsidies granted to Canadian pork processors.

Some problems have inevitably cropped up with the FTA dispute settlement process. Trade lawyers, for instance, have criticised some of the appointments to the panels.

Furthermore, except for the two fish disputes, the two governments have hesitated to refer some of their most serious disagreements to a panel, preferring to rely on less formal negotiations. For instance, a 20-year row over whether Canadian plywood meets US building standards is still in the hands of a committee of experts trying to draw up mutually acceptable standards for the Canadian product.

Mr Feldman says: "Consideration should be given to making greater and earlier use of Chapter 18 panels, seeing them not as rescue operations after failure, but rather as expert bi-national efforts to settle incipient disputes on their merits."

It has allowed them to settle some of their thorniest trade disputes with a minimum of political fallout

between the two governments. The lobster panel also came up with proposals (essentially vindicating the US position) which appear to have given impetus to an agreement between the industries in the two countries. The agreement is now awaiting approval by the governments.

The Chapter 19 panels have a narrower focus. They act in place of domestic courts to review whether specific anti-dumping and countervailing duty determinations are consistent with the law of the country where they were made.

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## Fewer than half UK exporters back ECGD changes

By Peter Montagnon, World Trade Editor

FEWER THAN half Britain's exporters support the changes proposed by the government for the Export Credits Guarantee Department (ECGD), according to a survey carried out by Sedgwick James, the credit insurance brokers.

Ninety-two exporters were asked their opinions in the survey which covered proposals to privatise ECGD's short-term commercial risk insurance business and plans for higher premiums and curbs on cover availability for medium-term guarantees.

Only 44 per cent of the 56 respondents said they supported the changes, while 56 per cent said they were

opposed. A large majority of 71 per cent said they would review their business strategy if British export credit facilities ceased to be competitive with those of other countries.

Nearly half said they would switch productive investment or procurement to other countries with better export credit arrangements and 41 per cent said they would cease to export to certain markets.

The survey reveals particular scepticism about ECGD's medium-term credit guarantee business, where it is trying to out its risk of losses by increasing charges and reducing cover limits.

Altogether, 64 per cent of respondents thought this would seriously affect their ability to win business in export markets, and 93 per cent said they thought a direct government scheme should continue to be provided in this area.

The government plans to persuade other countries to adopt a similar tough line in medium-term credit underwriting received a resounding vote of no confidence, with 91 per cent of respondents describing its approach as unrealistic.

The survey also showed a high degree of caution about the proposed privatisation of ECGD's short-term commercial risk insurance business. This will involve a complete withdrawal of government support within three years. However, only 23 per cent of respondents thought the private sector could satisfy all their short-term credit insurance needs, while only 8 per cent thought other leading industrial countries would follow Britain's lead in withdrawing government support. A majority of 68 per cent said this would put them at a serious competitive disadvantage.

Over half the respondents (51 per cent) said it would make no difference if ECGD's short-term insurance business were to be acquired by a foreign company, though 38 per cent said they would prefer the new owner to be British and 13 per cent wanted it to be European.

But there was a clear lack of support for merging ECGD with Trade Indemnity, the private-sector credit insurance specialist that has been actively campaigning to take over the business. No less than 57 per cent said they were opposed to this and only 41 per cent were in favour.

The poll also revealed a high degree of support (80 per cent) for a centralised European Community export credit guarantee scheme. Only 18 per cent said they were against such an idea.

Mr Montagnon, the Transport and Communications Minister, had acted improperly in approving the project without consulting the National Economic and Social Development Board or the Cabinet.

An uneasy peace has now descended on the coalition following a war of words in which various leading members traded accusations of impropriety.

The CP-BT consortium, which has agreed to pay the Telephone Organisation 16 per cent of revenues from Bangkok and 28 per cent from the provinces, was selected over Tokyo-based Japan.

Two weeks ago, when Mr Montagnon simply notified the cabinet of the decision, a bitter row broke out, worsening squabbles that had previously focused partly on other projects, including an elevated urban railway and new oil refineries.

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## Thais approve \$6bn phone network deal

By Peter Ungphakorn in Bangkok

THE Thai cabinet yesterday approved a controversial \$6bn (33bn) deal for a Thai-Thai joint venture to build a new telephone network.

The plan for Charoen Pokphand (CP), one of Thailand's largest business groups, and British Telecom (BT) to build the system, transfer ownership to the state-owned Telephone Organisation of Thailand, then operate it had threatened to wreck the fragile coalition government.

The deal came under fire again at yesterday's unusually lengthy cabinet meeting. The attacks came because, according to cabinet members, it did not conform with any existing privatisation method, nor had it passed through the planning and selection procedures normally required for projects of this size.

However, leading members of the coalition toned down their earlier accusations that the deal came under fire again at yesterday's unusually lengthy cabinet meeting.

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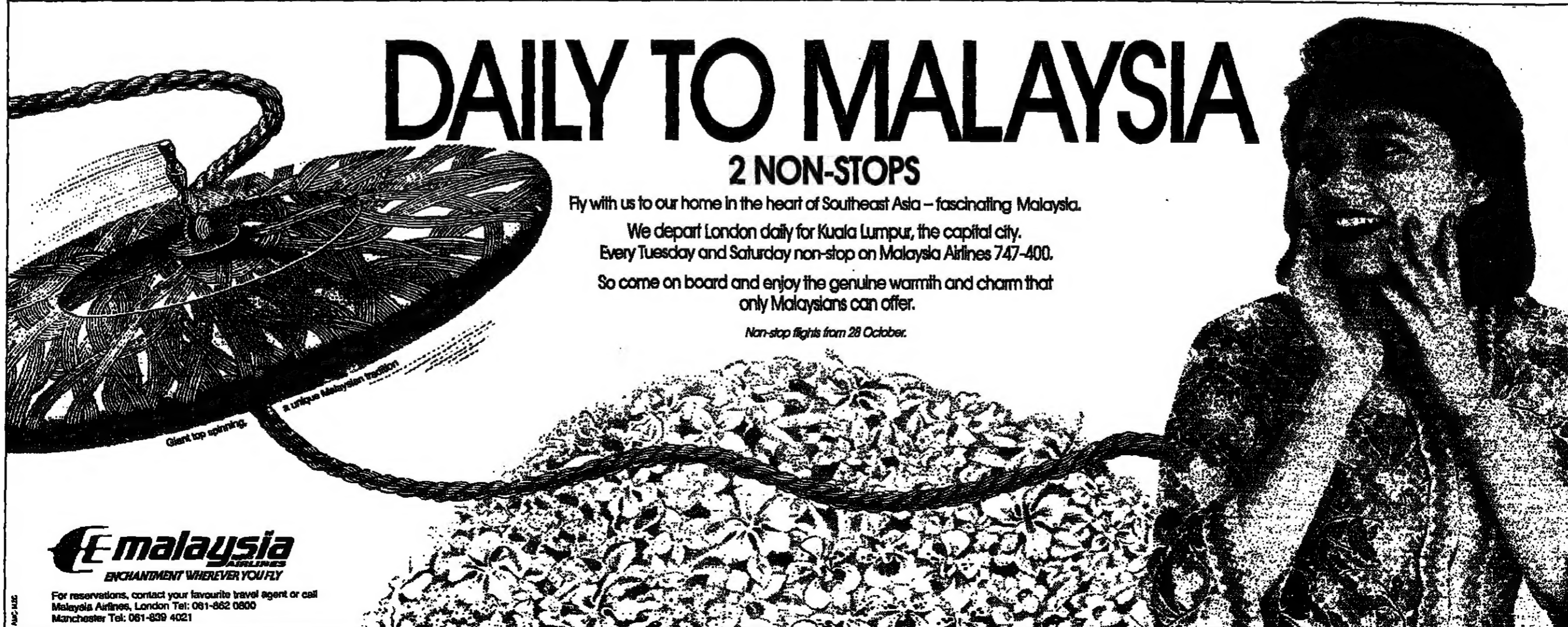
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# INTERNATIONAL NEWS

## Earthquake still takes its toll

Scheherazade Daneshkhu on why the relief programmes to rebuild Iran's devastated towns and villages are making slow progress

IT is now over three months since a devastating earthquake hit the fertile areas of north western Iran, killing an estimated 35,000 people and destroying or damaging 120,000 homes.

The effort needed to rebuild an area, which itself took well over 40 years to develop, is a huge and daunting one. But the government is undecided about whether it should rebuild towns and villages in an area where tremors are still felt almost daily or to relocate in safer spots within the region. Consequently, little rebuilding has taken place to date.

Instead, the government has concentrated on short-term relief for homeless families. The Iranian Red Crescent Organisation has set up some 5,000 prefabricated units, measuring about three metres by four metres in the two largest towns hit by the earthquake, Rasht and Manjil. Another 1,500 homes, wooden houses, more resistant to tremors than mud-based houses, or even steel and concrete, have also been built.

But these are a drop in the ocean. Tens of thousands of people are sheltering under small tents and are already beginning to feel the cold at night. Men and women who have lost everything now face a new danger - that of a fast-approaching winter - which plunges temperatures below freezing point in the mountainous areas worst affected by the earthquake.

Many people - it is impossible to estimate exact numbers - left the region in the first weeks for other towns, including the overcrowded capital, Tehran. There, the lucky moved in with relatives while others have been sheltering in school compounds. Now that the school year has started, however, it is unclear where they will go.

Given province, where the earthquake struck, is mountainous with olive-lined valleys leading down to rice-growing plains. The epicentre of the earthquake was not in the Caspian Sea as first reported, but at a windswept town called Macfil now completely devastated and depopulated. Manjil, a trading centre which also housed military installations



and acted as the service centre for one of the largest of the country's 16 dams, is situated on the Sefid Rud river between the towns of Rasht and Qazvin. Fortunately, the earthquake did not cause the dam to burst, but it has been damaged. A team of French engineers is now in Iran to inspect it. The damage, which is feared to have struck at its foundations, may mean that the dam will have to be emptied, a process which now appears to be taking place.

The agricultural significance of this measure will be felt in economic terms next year. The dam, irrigates the largest area of land in the country, some 240,000 hectares, which is over twice the size of the next largest area of irrigated land. If it is put out of action, the country's major rice-growing area will no longer be able to produce its crop.

Irrigated land accounts for some 85 per cent of Iran's arable food production and it was the intensive land cultivation in the area that attracted a steady flow of migrants from other parts of the country in the late 1960s and 70s to make this a densely-populated region. Rice is the staple food but poor agricultural performance, dating from the Shah's regime means that Iran spends up to one-third of its foreign exchange on food.

Another economic blow has been the destruction of the hydro-electric power-generator served by the Sefid Rud dam. The plant, which generated 85 MW of electricity per day was knocked out of the national



Homeless children try pants on from a pile of clothes donated through Red Crescent at a tent camp near Rasht grid the day of the earthquake. Iran has suffered from a shortage of power since well before the revolution, hampering industrial productivity and resulting in twice daily power cuts in Tehran. Output is 6,100MW a year but needs to be at least 10,000MW and maybe as much as 15,000MW to cope with demand.

THE Deputy Minister of the Construction Crusade said that 1,200km of rural roads had been reopened or reconstructed within a month of the earthquake.

In the short-term, however, the decision on whether to rebuild this region needs to be taken soon for the sake of its inhabitants. One visitor to the area said the task is far greater than that of building afresh, since what remains has to be pulled down and the rubble cleared - both major operations - before building can start.

For this, Iran needs earth-clearing equipment and construction materials such as iron, steel and cement. Its foreign exchange earnings have increased significantly with the rise in the price of oil but the government puts the cost of reconstruction of the affected areas at 200bn rials

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**FINANCIAL TIMES**  
EUROPE'S BUSINESS NEWSPAPER

## PRIVATISATION IN GREECE INVITATION TO PARTICIPATE

In accordance with the Greek Government's decision to transfer a number of State-controlled companies to the private sector, the Industrial Reconstruction Organisation (IRO) intends to sell its majority holdings in KAVALA PLASTICS S.A. MEL MACEDONIAN PAPERMILLS and MINION S.A. to interested investors. BANK OF AMERICA and ALPHA FINANCE A.E. have been exclusively mandated by the IRO to identify potential purchasers for the above-mentioned shareholdings.

### THE COMPANIES

**a. KAVALA PLASTICS S.A.**  
Established in 1973, the company is a producer and distributor of rigid and flexible PVC products (pipe fittings, compounds and polyethylene (PE) films. In 1989 total sales were US\$ 15 million and gross profits US\$ 2.7 million.

**b. MEL MACEDONIAN PAPERMILLS S.A.**  
Established in 1964, the company is a producer and distributor of cardboard (200-500 gr.). In 1989 total sales were US\$ 18.2 million and gross profits US\$ 1.05 million.

**c. MINION S.A.**  
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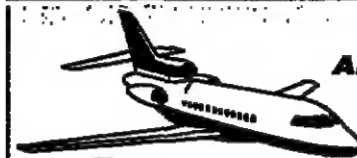
For the Offering Memoranda as well as further information on the proposed sale procedure and timetable, interested investors should contact:

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Bank of America International Ltd.  
M & A Department  
25 Cannon Street  
London EC4P 4HN, England.  
Tel: (44) (71) 6344582  
Fax: (44) (71) 6344983

Bank of America - Athens  
Corporate Finance Dept.  
39 Panepistimiou Street  
105 64 Athens, Greece  
Tel: (01) 325 1901  
Fax: (01) 324 1936

For Company (c):  
Alpha Finance A.E.  
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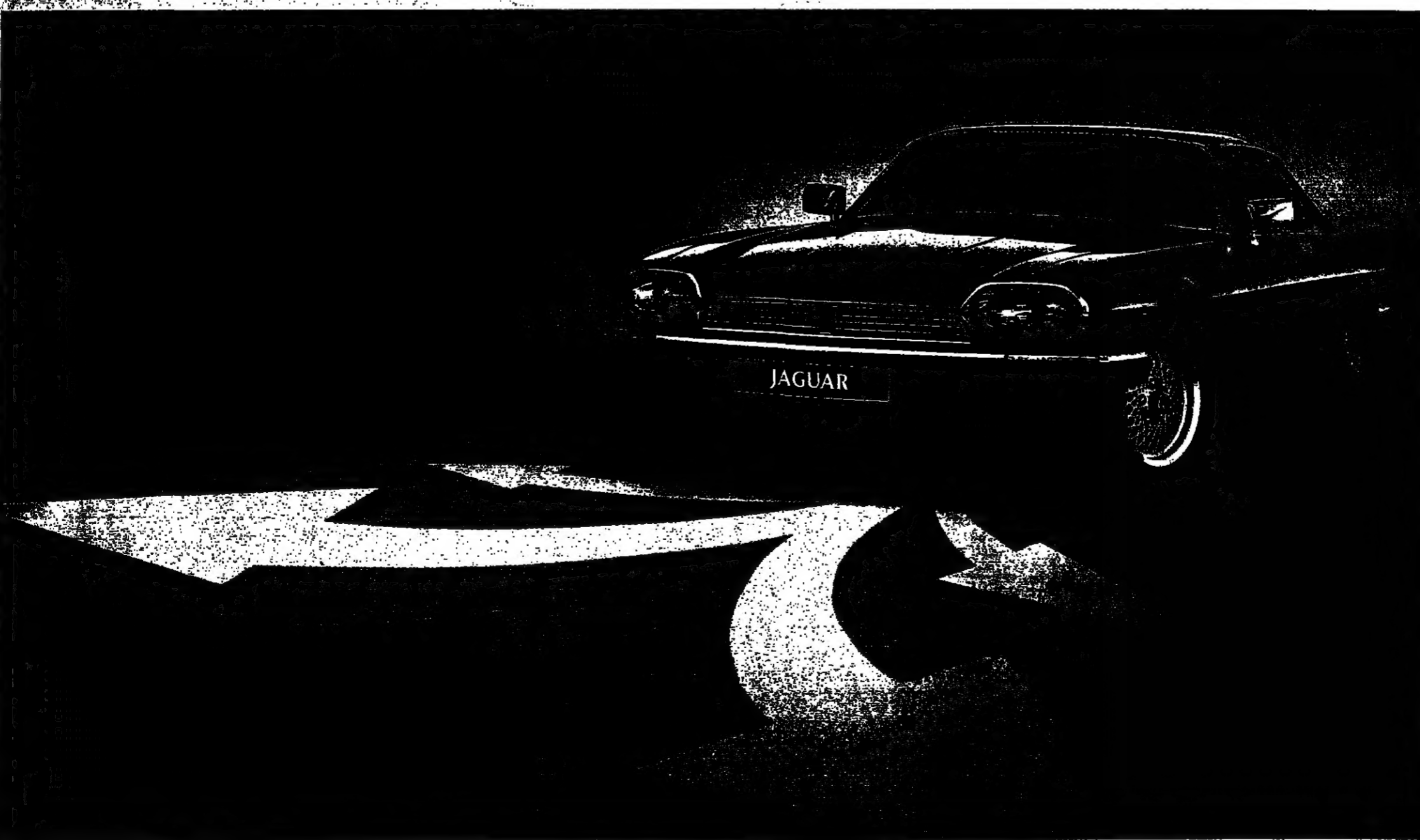


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## INTERNATIONAL NEWS

## Fears grow of property price slump in Japan

By Stefan Wagstyl in Tokyo

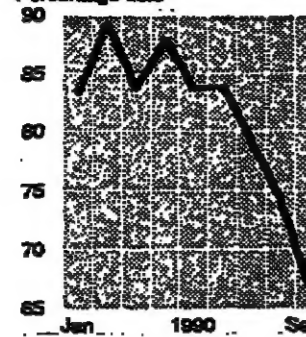
A LEADING indicator of the state of health of the Japanese property market fell last month for the third month in a row, increasing fears of a deepening slump in real estate prices.

Of the new apartments on sale in Tokyo last month, only 67.1 per cent were sold, 11.9 percentage points less than in September 1989, according to the Real Estate Economic Institute. The ratio fluctuates seasonally, but is normally above 80 per cent in September, a peak month for home-buying. The last time the figure fell below 70 per cent was in September 1984.

In Osaka, where the institute has been gathering data for only a year, the sales/offers ratio also fell - to 64.3

### Tokyo new flat sales

Percentage sold



per cent, down from 82.3 per cent in August. The lowest figure for Osaka was 54.1 per cent in January 1989.

Officials at the Institute forecast further declines in the months ahead. This could foreshadow a long-lasting slow-down in the market for new flats, a key element in the residential housing market.

Mr Tom Hill, property analyst at E.O. Warburg, the UK securities company, said sales would continue to fall for the rest of the year. Prices had to fall to levels where people could afford to buy. He estimated prices of flats, as of land, had to fall about 20 per cent over the next two years.

Flat prices had already declined 6-7 per cent from their peaks earlier this year, he said.

There is mounting concern about the effect on heavily-borrowed property companies of a combination of falling prices and rising interest rates.

Itoman, a publicly-quoted Osaka trading company, this week denied that it is in difficulties servicing its ¥1,300bn (\$5bn) of consolidated debt. Yesterday, the bankruptcy of Ikeda, a small privately-owned Tokyo property company, which owed just ¥4.5bn was reported in Nihon Keizai Shimbun, Japan's leading business daily. The bankruptcy was in itself unexpected - since a handful of property companies fails every month - but the prominence of the report indicates the growing concern in Tokyo that such bankruptcies will increase rapidly in future.

Bank lending to property companies has been tightly controlled since March this year, with banks obliged to keep the rate of increase in property loans to the same rate as the overall increase in lending. Mr Tetsuya Tazawa, director of the credit and market management department of the Bank of Japan, said yesterday: "Banks are getting more cautious about the property market."

That is almost certainly an understatement. But the loans which banks are most worried about are not those made in the last six months, when signs of weakness in the market were already apparent, but those made at the market's height.

The companies most at risk are not the largest groups. With their large land holdings acquired years ago and steady stream of rental income, Mitsubishi Real Estate and others have a large buffer both of assets and cash flow. It is companies which are heavily-borrowed and rely greatly on property sales not rents which are under the greatest pressure.

## Violent social unrest disturbs a land of conformity

Robert Thomson reports from Osaka, scene of bloody protest by Japan's outcast day workers

EARLY yesterday, the day-labourer district of Osaka had returned to normal. Grubby, shoeless men slept in doorways, using strips of cardboard as blankets, and a few drunks prodded the beer vending machines still standing after the violence of the past week.

Japan's economic miracle has not blessed the men of Nishinari district, who led the bloody protests against police that became the most serious labour unrest the country has seen in two decades.

The local police station was attacked night after night, dozens of cars were set ablaze, and about 200 people were injured. News of the violence lured other fringe groups: the left and right wing radicals, and the young thugs known as *motorbikes*, and even high school students, some wearing the high-collared tunic often seen as a symbol of Japanese conformity.

With the calm has come a return to the frustrating routine of the 30,000 day-labourers in the district, a routine matched in the Tokyo suburb of Sanyu, another down-and-out area, not on the middle-class map. There are no blue suits or company badges on the lapel in Nishinari or Sanyu.

At around five each morning, Nishinari's day-labour market opens in a concrete building resembling a large, unclean car park. There is a dried out fountain, a relic of a past attempt to beautify the area, and noodle stands for those who have money in pocket at the start of the working day.

Hacking coughs and deep clearings of the throat compete against the shouts of a left-wing group urging the men to rise up against their oppressors. The job offers are plastered on the windcreens of vans and trucks that take the men, mostly in their 50s, to the small factories or construction sites that need their labour.

Japan's strong economy and a national labour shortage means there



Japanese riot police take away a man after 1,000 people rioted in Osaka last weekend

is plenty of work. According to the windscreen offers, a day's work clearing land will earn a man ¥11,000 (\$42) and a place on a production line ¥11,500, while a few technical skills could bring in ¥14,500 at a small machine tool factory.

But as they scan the windcreens each morning, the labourers are reminded of the power of the *yakuza*, or gangsters. Many of the job bouts have the tightly curled hair, the "punch perm", that is the trademark of a gang member.

A Catholic social worker explained that the police and the *yakuza* dominate the lives of the day labourers. The police tend not to mind the gang role in Nishinari because the average

Japanese is unaffected and, the recent riots aside, the *yakuza* bring a certain social order to the otherwise disorderly fringe dwellers.

In the morning, the labourer arrives at the job market and sees the *yakuza*, who take commissions from companies to get labour. Then, after work, the men want some pleasure. They play mahjong or pachinko (Japanese pinball) or drink in a bar, and all that is run by the *yakuza*, the social worker said.

Then, the labourers lose money gambling at the *yakuza's* parlours, so they have to borrow from the loan shops you can see here. They are run by the *yakuza*.

The news last week that the local

police officer in charge of investigating the gangs would be charged with having received ¥3.5m in bribes from the *yakuza* was the inspiration for the Nishinari riots. Some 2,000 police were called in, and there were fears that the arrival of other Japanese fringe groups would stoke the protest.

But the Japanese press suddenly stopped reporting the violence, and word spread around the district that the police and the *yakuza* had done a deal. The gangsters would use their influence to calm the situation, while the police would let the gang members return to business as usual. Police say the rumours are unfounded.

Yet police admit that they have had a long and often harmonious relationship with the *yakuza* groups inside and outside Nishinari. The *yakuza* nationally earned an estimated ¥1,500bn last year, and their membership was reckoned to be 97,000.

Given these traditional police-yakuza ties, it is understandable that a day-labourer threatened by a *yakuza* loan shark is unlikely to turn to the Nishinari police station for help.

Nishinari is also a haven for foreign workers, particularly from South-east Asia and South Korea, but they often have stronger support networks than the down-and-out Japanese. There is an Asian workers' association in Osaka, and a strong sense of identity among national groups, while the Japanese are outsiders in their own society.

Their plight has drawn the attention and generosity of religious welfare groups, while some left-wing activists see the men as the perfect symbol of oppression, and would like to make them the vanguard of a revolution.

On one wall of the Day Labourers' Association, a tapestry shows Mao Zedong in contemplation, and hangs next to portraits of Lenin and Marx. On another wall, there are portraits of the "martyrs" of past campaigns - an activist killed by a bulldozer and another shot by the *yakuza* - and the slogan: "From here on, what must be done."

The office is just around the corner from the beleaguered police station, and it is obvious to all that it takes a few tentative phone calls to draw out the leader, Issao Hashino, who claims to have been arrested 21 times and that he is on a *yakuza* hit list.

"People here have very hard lives. The greatest problem is the people who are too old or too sick to work. If you don't have the money to pay for a night in a hotel, then you have to spend the night on the street. Then, if you are capable, you try to get work the next day, and so on," Mr Hashino said.

### Taiwan reserves replenished

TAIWAN'S foreign exchange reserves are set to top \$70bn (\$35.5bn) again following a three-year low of \$63.6bn in June, reports Peter Wickenden.

A record \$8.5bn left the island in the first half of the year as the stock market plummeted and social disorder affected the investment climate.

Mr Samuel Hsieh, central bank governor said on Monday that capital had been retreating since July as investors took money out of other Asian markets and cashed in regional mutual funds.

## Peking leadership outlines cautious economic package

CHINA'S hardline leadership yesterday outlined cautious new economic plans for the next five years, Reuters reports from Peking. Diplomats noted that this signalled a further retreat from the bold reforms of the middle 1980s, already on hold for the last two years.

Li Peng, the Chinese premier, called in a lengthy speech, published in the official People's Daily newspaper, for more economic retrenchment and fewer development projects in the five years beginning in 1991.

"We cannot develop blindly," Li said. "We do not want to seek over-rapid growth."

A new five-year plan, beginning 1991, is to be finalised at a plenary session of the ruling Communist Party's central committee, possibly next month. Last August, Li said China was aiming at average growth of 5.5 per cent to 6 per cent over the five years.

While Li's latest speech pledged to continue China's opening to the outside world, it made no mention of price reforms, the ambitious policy

of stimulating production by freeing prices.

Nor did Li refer to changes in ownership of inefficient state industries or the prospect of bankruptcy - policies that emerged from the reform programme begun in 1978. These policies, abandoned after massive inflation in 1988, were unacceptable to the hardline ideologues in control since the massacre in Peking in summer 1989.

On the contrary, he indicated that the government would continue subsidies for

these industries - subsidies that now eat up one third of the national budget.

Li pledged fewer big development projects over the next five years. The exception is Shanghai, which plans a multi-billion dollar development of its Pudong district that will absorb much of the money China has for development.

China says it will overhaul airline management and safety regulations in the wake of last week's hijacking and three-aircraft pile-up in the southern city of Canton, Peter Ellingsen

writes from Peking. The accident left 127 passengers dead, and several dozen others injured.

The Civil Aviation Authority of China, yesterday conceded there were management "problems" that warranted a shake-up of the company and at Kiang airport, where the hijacker boarded with explosives taped to his body.

Diplomats say airline policy has been to resist hijackers, a claim supported by recent attempts ending in crews subduing attackers.

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## INTERNATIONAL NEWS

## Saddam's 'new' missile puzzles experts

By David White, Defence Correspondent

WESTERN missile experts were puzzled by President Saddam Hussein's announcement yesterday of a new weapon capable of attacking Israel. But they emphasised that Iraq already had ballistic missiles with sufficient range.

It was not clear whether the Al-Husayn, meaning "the stones", was in fact a new weapon or a new name for a system already in existence.

Mr Saddam told the Israelis yesterday they had no choice but to leave Arab lands and warned that Iraq had a powerful new missile which would strike "when the time of reckoning comes". His comments followed the deaths of 19 Palestinians by Israeli police in Jerusalem on Monday.

The choice of name was evidently intended to link the weapon to Palestinian protests. Mr Saddam said Iraq had many of the missiles, with a range of hundreds of kilometres. Some experts said this suggested one of Iraq's enhanced versions of the Soviet SS-1 Scud.

One of these, the Al-Husayn, with a smaller warhead than the Scud but double the Soviet missile's 300km range, was used in the Iran-Iraq war. According to the International Institute for Strategic Studies, Iraq has deployed at least six Al-Husayn launchers in its western desert region, within reach of targets throughout Syria and much of Israel. Iraq has also deployed a 900km range derivative, the Al-Ahmad, test-launched in early 1988.

Last December, Baghdad said it had successfully launched a three-stage rocket capable of putting satellites into space. It is thought a missile version would have a range of 2,000km.

A collaborative project based on the Argentine Condor 3 programme, with a planned range of up to 1,000km, was stalled after Egyptian withdrawal and a clampdown on assistance from western companies. But the Iraqis are thought to be keen to appropriate the project's solid fuel technology. Their Scud-based missiles use liquid propellant.

Opinion is divided as to whether Iraq has chemical warheads for longer-range Scud derivatives. Some Scud launchers are believed to have been moved to the Basra region near Kuwait.

## Brazilians leave Iraq

THE LAST group of 82 Brazilians arrived in Brasilia from Baghdad on Monday, completing the country's evacuation of all 300 of its citizens in Iraq, Reuters reports from Brasilia.

Mr Paulo Tarso Flecha de Lima, Brazil's ambassador to London, headed a diplomatic mission to Iraq 23 days ago to negotiate exit plans. The last group's departure was on Sunday and travelled on a chartered Iraqi Airways flight authorised by the commission of the United Nations that had ordered the Iraq air blockade.

The 82 Brazilians are employees of Mendes Junior, the construction company, which spent \$800,000 (\$305,000) on evacuating 255 people in two chartered jets. The foreign ministry said 11 Brazilians had volunteered to remain in Iraq to maintain the company's equipment.

## Boarded ships came from Yemen, Jordan

Two cargo ships boarded by international forces blockading Iraq on Monday had sailed from Jordan and Yemen, western diplomats said yesterday, Reuters reports from Doha.

The 3,600-ton Tadmur and the al-Wakeel, both under Iraqi flag, were intercepted on Monday by western ships enforcing the United Nations trade embargo imposed on August 6.

## Report accuses Malawi of human rights abuses

By Michael Holman, Africa Editor

THE government of Malawi, the fourth largest recipient of British aid to sub-Saharan Africa, has been accused of "gross human rights abuses" in a report to be published today.

The 116-page account of "systematic suppression of dissent" has been compiled by Africa Watch, the London-based organisation which monitors human rights on the continent.

The report challenges Mr Douglas Hurd, the British foreign secretary, to put his promise to link aid with "good governance" into practice. Last June Mr Hurd warned that "governments who persist with repressive policies, with corrupt management, or with wasteful and discredited economic systems should not



Thousands of Palestinians march at the Baga refugee camp in Amman yesterday after the killing of 19 on Jerusalem's Temple Mount by Israeli forces

## Manageable setback for Gulf economies

By Victor Mallet in Doha

IRAQ'S invasion of Kuwait has been a "severe but manageable" setback for domestic markets, private businesses and banks in the Gulf after encouraging signs of economic strength in the first half of the year, according to a report published today.

Dr Henry Azam, Chief Economist at the Bahrain-based Gulf International Bank (GIB), predicts in his latest report that there will be very little new private sector investment in the region until the Gulf crisis is resolved.

Several joint venture projects scheduled to begin in 1991 may now be delayed pending a lasting solution, says Dr Azam. "It may take much longer to revive foreign investment participation, and Gulf governments will have to step in to fill the gap left by private and foreign capital."

The report paints a gloomy picture for non-oil activities such as construction and services, which had been regaining momentum after the 1988 ceasefire ending the Gulf war between Iran and Iraq.

Governments, profiting from higher oil revenues, will have to spearhead economic development as they did in the 1970s, but much of their attention will focus on defence.

On the brighter side, Dr Azam writes: "There is money to be made from every aspect of the crisis, whether from additional defence spending or reconstruction related activities." He acknowledges that the region's banks, particularly the offshore banking units (OBUs) in Bahrain such as GIB, have been hurt by capital flight to safe havens such as London, New York and Switzerland.

Bahrain's prospects as an offshore banking centre have been affected, he says. "Some international banks may scale down operations or leave the island but economic activities in Bahrain and the region will not come to a standstill."

Private sector deposits transferred abroad from the Gulf ranged from 10 to 30 per cent depending on the country, the report says, but Gulf governments injected deposits, probably leaving the average net decrease of not more than 10 per cent. Local bank deposits of the United Arab Emirates authorities are 50 per cent up on March.

## Gulf decision nears for Bush

Peter Riddell, US Editor, on the mood in Washington

THE US budget crisis has distracted attention from the Gulf in Washington over the past two weeks, but it is only a temporary lull.

The Gulf crisis no longer automatically dominates, or even appears, on the front pages of the main US newspapers. The policy of isolating Iraq by diplomatic and economic means is set, the military build-up - 204,000 US forces personnel in the region - is nearly complete. It is now a matter of time.

But the tempo can easily accelerate as this week's events in Israel have shown. At his White House press conference yesterday President George Bush was at pains to counter Iraq's attempt to link the killings of the Palestinians in Jerusalem to the Kuwait question. In a statement as much of hope as of prediction, he did not think the latest flare-up would endanger the Arab coalition against Iraq. The involvement of Israel is just what Washington fears. So no wonder Mr Bush yesterday urged the Israeli security forces to be better prepared and to act "with greater restraint".

The other potential pressure for action is what the US has described as "the systematic destruction" of Kuwait by the Iraqis. Mr Bush admitted this was "a new equation in the last three weeks that concerns us enormously" - and he said his patience was "wearing very thin on that account".

Yet even if external events do not force a decision, at some stage President Bush will have to decide whether sanctions are working or whether the

alternative of military action has to be ordered.

Mr Bush does not have a precise timetable. There is no reason to doubt that he is sincere in hoping that sanctions will work. Central Intelligence Agency estimates supplied daily to him - reinforced apparently by Soviet intelligence help - suggest that evasion of sanctions exists but is not substantial. They point, however, imprecisely, to increasing economic problems within Iraq, such as shortages and higher prices, but that is a long way from saying that tightening sanctions will force President Saddam Hussein to withdraw from Kuwait. The view in Washington is that it will not be possible to reach an assessment until at least early December.

Then, if Mr Bush judges that sanctions are not working sufficiently, the US recognises that it will have to consult before taking further action. Aside from Iraqi aggression requiring an immediate armed response, President Bush and his advisers accept the need to prepare both an international and domestic consensus. Military action would then be presented as a regrettable but inescapable last resort. This consensus does not exist now.

Congressional leaders, in last week providing overwhelming backing for Mr Bush's handling of the crisis so far, specifically warned that this was not a blank cheque for military action. Leaders of both parties urged the need for more patience in seeing whether sanctions work.

The problem is that Congress is

likely to be in recess when any decision on further action is taken. There have already been informal discussions with chairmen of key committees about future options, including the use of force.

The present lull has also provided time for a debate about the consequences of military action. US officials believe that such a war could be won. Even if they are highly sceptical about the advantages of strategic air power, they believe the Iraqi air force could be neutralised quickly and the problem would be a prolonged battle with its large and heavily armoured ground forces.

Although among some policymakers there is almost a fatalistic feeling that war cannot be avoided, there is understandable apprehension about the possibility of tens of thousands of US casualties as well as fears that the whole of the Middle East, including Israel, will be caught up in any conflict.

Moreover, the polls show a widespread view that the US itself is having to bear too much of the burden, and risks, on behalf of European, Japanese and Arab allies. Even so internationalist as a newspaper as the New York Times has argued this week that Washington should demand much more from the allies, which should deploy more forces and contribute more financially.

The limitations of President Bush's ability to convince the American people have been shown by the budget fiasco of the past week. He will have to be more persuasive if he is to win support for eventual military action.

## Bhutto attacks president

MS Benazir Bhutto, the former Pakistani prime minister, yesterday accused Pakistan's president of "naked aggression" against the judiciary and said he had acted like a martial law administrator, Reuters reports from Lahore.

She said the dismissal of two judges showed President Ghulam Ishaq Khan was determined to bring the judiciary into line. She was speaking shortly after appearing before a special court in Lahore. Since dismissing Ms Bhutto on August 6 and ordering elections, Mr Ishaq Khan has confirmed several acting judges but sacked two the most recent acting supreme court justice on Monday.

Ms Bhutto attacked the 75-year-old head of state as a "stubborn old man" and said she regarded him as her main opponent in the national elections due on October 24.

Last week he attacked "fascist tendencies" in her Pakistan People's Party after violent scenes at the Lahore High Court when she was first due to appear.

This time the police took no chances. Hundreds of officers wearing riot gear set up a security cordon several hundred yards from the colonial court complex and stood shoulder to shoulder around its interior courtyards.

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## NOMEX III - The superior flame-resistant formulation.

In motor racing, spectacular accidents are, unfortunately, all too frequent. And if a car catches fire, a few seconds can make the difference between life and death.

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NOMEX III is a blend of NOMEX meta-aramid and KEVLAR para-aramid developed by Du Pont. It has proven advantages over other heat- and flame-resistant textiles. This is mainly because the woven material does not break open even when exposed to flame, so that the skin is not directly exposed to the fire.

Du Pont has subjected NOMEX III to numerous tests which confirm its exceptional protective properties. A special manikin developed by Du Pont, known as the "Thermo-man", is one of these. It is 1.85 metres tall and has 122 sensors distributed over its entire surface to register temperature, quantifying pain thresholds and the critical point when burns first occur. The results have provided invaluable information for the development of safer protective clothing.



NOMEX III under test on the "Thermo-man"

## Critical protective clothing applications.

Firemen, policemen and industrial workers can all find themselves in potentially dangerous situations. Garments of



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Italian firemen wear clothing of NOMEX III

long periods of wear and repeated washing. It will last about six times as long as a garment of flame-retardant cotton.

This is why public authorities and organisations are relying increasingly on clothing made from NOMEX III. In the U.K. the majority of professional firemen are equipped with NOMEX III. So are an increasing number in Germany. In Italy, all 25,000 members of the national fire service are equipped with protective garments made from NOMEX III.

## World rally champion with Kevlar.

KEVLAR makes many contributions to the increased safety of motor racing. For example, it is used to reinforce helmets, car body components and tyres.

A burst tyre at high speed is a nightmare for any driver. Hours of driving combined with repeated heavy braking subject tyres to exceptionally heavy loads.

Leading tyre manufacturers have therefore adopted KEVLAR to reinforce their high-speed and other speciality tyres. Tyres reinforced with KEVLAR have numerous advantages: they are lighter, develop less heat and withstand greater loads.

Michelin, Pirelli and Dunlop have been

using KEVLAR for some years with considerable success: most rally world championships in the past ten years as well as the 1987, 1988 and 1989 Group C World Championships were won on tyres reinforced with KEVLAR.

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Du Pont is now once again setting standards in fibre technology with the KEVLAR "Rx" Series, which achieves significant performance improvements for specific applications. KEVLAR "Rx" has, for example, higher tensile strength; KEVLAR "Hm", a higher modulus of elasticity; and KEVLAR "Hc" greater adhesion. KEVLAR "Hc" is available in other colours as well as the original yellow, while KEVLAR "Hp" is ideal for optimising performance of sports equipment.



Group C - World Cups 1987 and 1988 for Jaguar - and elsewhere, for Dunlop tyres reinforced with KEVLAR as well.

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## Friction likely as Brazil reopens bank debt talks

By Simon Fisher in Rio de Janeiro and Stephen Fidler in London

BRAZIL reopens negotiations with creditor banks in New York today for the first time since it suspended payments on the developing world's biggest foreign debt in June 1989.

Brazil has announced unilaterally that the bank advisory committee representing creditors at the talks, which is led by Citicorp of the US, would be increased from 16 to 22 members.

The move, which is expected by some bankers to lead to friction at the start of the talks, is being interpreted as an attempt to dilute the influence of US banks. They have led the campaign to get Brazil to pay accumulated arrears to the banks, now estimated at more than \$300m (\$2.1bn).

The six new members of the committee are all European, three of them French. Yet French banks account for only about 9 per cent of the bank debt, while the Japanese - with only two representatives on the committee - are owed about 20 per cent of the debt.

Brazil had a total debt of \$112.7bn at the end of 1989, \$76.2bn of which is owed to private sources, according to the World Bank. It is seeking a substantial debt reduction to secure a definitive solution to its debt problem. It wants terms at least as favourable as those agreed with Mexico and Venezuela.

While the possibility of releasing about \$1bn in overdue payments for private company debt deposited in the central bank has been left open, Brazil wants the lion's share of public debt arrears to be refinanced together with future payments.

Mr Jorio Dauster, the chief

debt negotiator, will repeat the message given to generally unsympathetic bankers at the International Monetary Fund/World Bank meeting in Washington two weeks ago, that debt payments must be limited to Brazil's ability to pay. This has been reduced by the Gulf crisis and the higher price paid for imported oil.

After decades in which the international financial community complained of economic mismanagement in Brazil, the team will argue that banks cannot now have it both ways: the government's far-reaching liberalisation programme will collapse if payments exceed Brazil's budget surplus.

Together with now-familiar proposals to exchange old debt for new titles based on reduction of capital or interest, or a combination of both, Mr Dauster will present a menu of debt-reduction proposals, expected to include a formula whereby payments would increase in line with Brazil's economic recovery.

However, the formula would also allow for payments to fall in line with external factors, such as higher oil prices, recession in industrialised countries and a rise in international interest rates.

The talks will run until Friday, when a new meeting will be arranged at which banks will reply to the Brazilian proposals.

● Brazil yesterday announced a 30 per cent salary rise for public employees - including civilian, military and retired personnel. The increase, effective from this month, will reduce the Treasury surplus by about NCrs40bn (\$280m) a year.

## Privatisation fears of Uruguay's very public workforce

Progress is slow in a country where one in four employees works for the state, writes Leslie Crawford

PRESIDENT Luis Alberto Lacalle of Uruguay, who took office in March, is a fervent convert to the cause of privatisation in a country where most of the population remains opposed to the idea of selling off state enterprises.

This entrenched antagonism baffles Mr Lacalle. "All Uruguayans complain about the public telephone service," he says. "When you ask them whether they think a private company could do a better job, they say yes. But when you then ask whether Antel [the state telecommunications company] should be privatised, a majority say no."

It is not that Uruguayans are irrational, he says. It is just that they are very conservative, and wary of change.

Although privatisation figured prominently in the president's electoral platform, he knows he must proceed cautiously, not least because Uruguay's complex electoral rules allowed him to win office with only 22 per cent of the national vote.

The biggest fear is that privatisation will lead to massive job layoffs in a country where one in four of the workforce (some 270,000 people) is employed by the state. Though the pay is poor, and most public employees take on extra jobs to make ends meet, they value the security of state

employment. Under Uruguay's constitution it is illegal to sack a civil servant unless he commits a criminal offence.

Mr Lacalle's most vocal opponents are Uruguay's powerful trade unions. Using arguments that have almost disappeared from the rest of Latin America, they accuse the president of jeopardising Uruguay's sovereignty by attempting to hand over key state services to foreign multinationals.

The main left-wing opposition alliance, Frente Amplio (Broad Front), is also against privatisation, although it agrees that the state sector needs to become more efficient.

"What we are against," says retired general Liber Seregni, Frente Amplio's 73-year-old leader, "is privatising profits and socialising losses."

Mr Seregni is particularly critical of the way the government has set about privatising four banks that were rescued in 1987 on the brink of collapse. Banco Comercial, the biggest private bank in Uruguay, is expected to be sold to a consortium of foreign banks next month for a nominal sum of \$15m (\$7.5m). The central bank has also agreed to take over Comercial's portfolio of bad debts.

Mr Agustín de Urbina, central bank vice-president, estimates the government spent \$200m rescuing Banco Comer-



Lacalle: caught between desire for efficiency and job security

cial and restoring it to financial health.

"We paid to get rid of it," he says. But the announced sale provoked a national scandal. Mr Enrique Braga, the finance minister, was hauled before Congress three times last month to explain the terms of the deal.

The future over Banco Com-

ercial has given Mr Lacalle a foretaste of the problems that lie ahead. Even within his ruling National Party there are voices of dissent. This is expected to bog down legislation in Congress, and nobody in or outside government even dares to predict when a privatisation programme will begin in earnest.

One of the few men who remain undaunted is Mr Conrado Hughes, the budget and planning minister, who has been dubbed Uruguay's "privatisation czar" by the press.

He has sent two bills to Congress: one which seeks to do away with state monopolies in insurance, telecommunications, port services, gambling, cement and alcohol refining. The other is a broad "state reform" bill which, among other things, seeks to give the government a free hand in the disposal of state assets.

Mr Hughes, who was in Britain in July studying how various companies were privatised, says most of Uruguay's 15 state companies make a profit, but they are able to do so only because they are monopolies and can therefore fix prices.

"Our ports," he says, "employ 5,000 workers, but Valparaíso in Chile moves three times more cargo with only 650 employees."

He believes that privatising certain services and opening up other activities to private competition is the only way to rescue the country from its chronic decline.

The country has barely recovered from a steep recession in 1982 and 1983, and over the past 10 years investment has been so low it has not been sufficient to compensate for

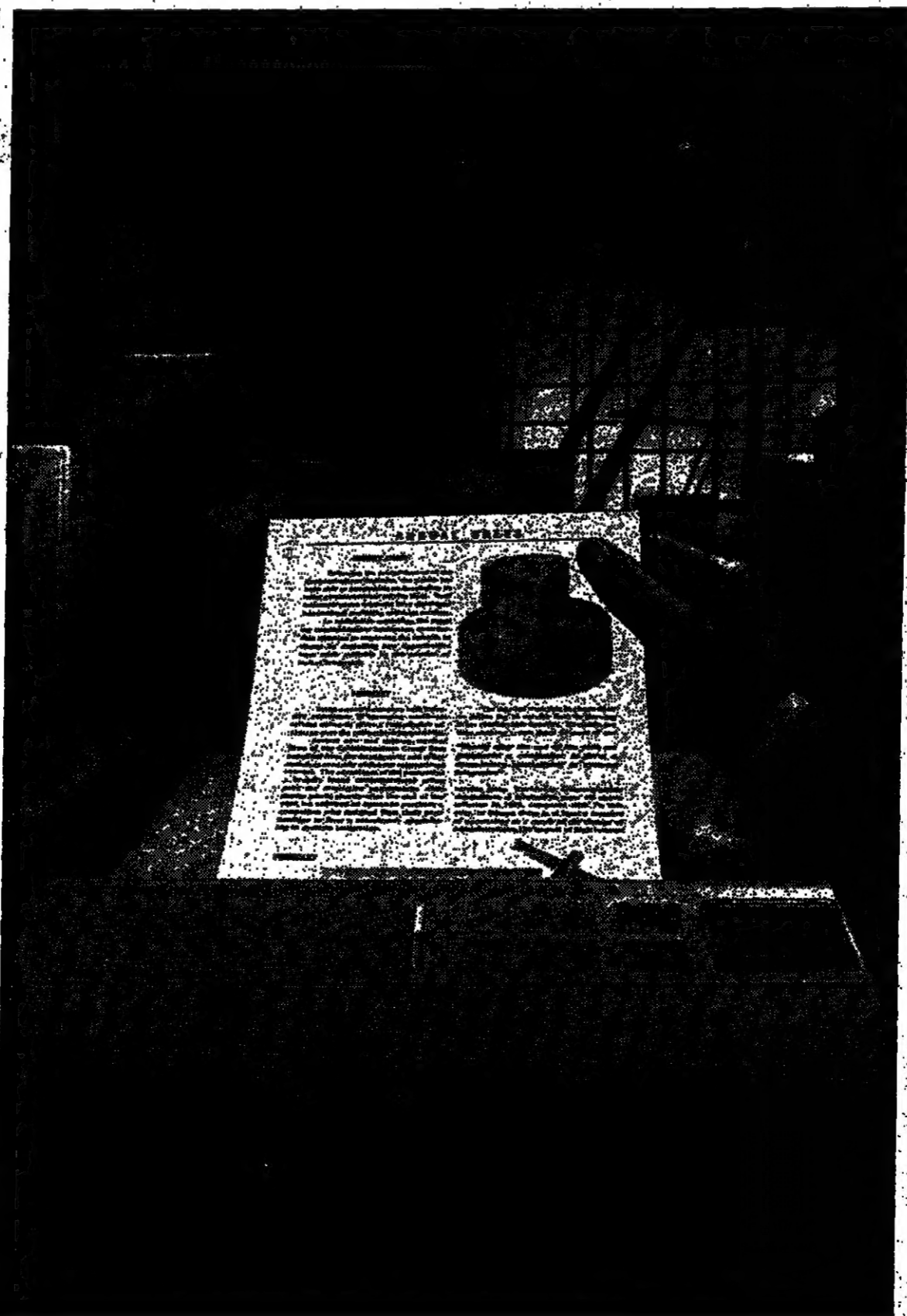
capital depreciation. More than 10 per cent of the population, some 300,000 people, were driven into exile by the 12-year dictatorship that ended in 1985, and this robbed the country of most of its best-qualified young professionals.

Antel is a key company that will be up for privatisation if Mr Hughes' legislation makes it through Congress. Ms Rosario Medero, Antel's recently-appointed president, says the company has only just begun examining various options with the World Bank and foreign privatisation consultants.

However, she is already convinced that Antel needs private partners to double its current investment rate of \$50m a year. There are 97,000 Uruguayans waiting for telephones. On average, they will have to wait two years, but in the countryside 15 years is not unheard of. Ms Medero says the state alone does not have the resources to meet this demand.

She believes the state will probably retain a large share in Antel, although it will leave the day-to-day administration to a private operator. She also places great store in the demunicipalisation of the telecommunications sector, as this will encourage private companies to provide new services, such as data transmission.

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THE POSSIBILITY MADE REALITY.

## Bogotá eases stand on extradition

By Sarah Kendall in Bogotá

PRESIDENT César Gaviria of Colombia has offered guarantees to drug traffickers that they will not face extradition to the US if they surrender to authorities and voluntarily confess.

A trafficker who gives himself up, and who confesses to any subsequent charges, can also earn a reduced sentence. The move, which follows an offer of more lenient sentencing to some traffickers last month, makes it possible for one judge to hear all the charges against a self-confessed trafficker and, if no sentence has been passed, to release him after one year.

The new measure implies a significant softening of extradition policy. None the less, Colombian authorities pushed ahead with a carrot-and-stick policy towards the cocaine cartels by simultaneously announcing the extradition to the US of the 21st suspected drug trafficker in the past 14 months.

Mr Jaime Giraldo, minister of justice, said the changes would help strengthen Colombia's judicial system. No important drug trafficking figure is on trial at present, and the main suspect in the case involving the murder of Liberal presidential candidate Luis Carlos Galán recently walked out of jail wearing a false beard.

Since the kidnap of Mr Francisco Santos, news editor of the Bogotá daily newspaper El Tiempo, the government has repeatedly denied rumours of negotiations with the Medellín cartel. A commission of elder statesmen offered to mediate, saying an interchange of ideas seemed more suitable than the use of kidnap as a weapon to pressure the government into dialogue.

Mr Santos, as well as Ms Diana Turbay, daughter of a former president, and five other journalists are all assumed to be in traffickers' hands.

## Latin American leaders to hold two-day summit

By Joe Mann in Caracas

NINE Latin American presidents are scheduled to meet in Venezuela's capital tomorrow for two days of talks under the auspices of the Rio Group.

The group is an informal consulting body that includes the governments of Argentina, Brazil, Colombia, Mexico, Peru, Uruguay, Venezuela, Ecuador and Chile.

Mr Carlos Andrés Pérez, Venezuela's president, said two of the main topics would be US President George Bush's Enterprise for the Americas initiative, aimed at expanding trade and investment in the region, and the need for governments

to achieve economic integration among themselves.

The presidents will also examine other economic and political issues affecting Latin America and the Caribbean. Diplomats organising the Caracas conference said there was no formal agenda and that the leaders would decide on topics to be considered.

Three working sessions are scheduled, and the presidents will issue a joint declaration on Friday evening.

In the past the group has discussed such issues as regional integration and security, controls on the drugs trade and terrorism.

## Budget row hits Bush ratings

By Peter Riddell, US Editor in Washington

PRESIDENT George Bush's approval rating has dropped sharply during the current budget crisis, according to latest polls. The increase, effective from this month, will reduce the Treasury surplus by about NCrs40bn (\$280m) a year.

Two polls yesterday show approval of how Mr Bush is handling his job as president dropping to July levels, before the Gulf crisis started. But the figures are still positive for this stage of a presidency.

A Washington Post/ABC News poll points to a decline in Mr Bush's approval rating over the past month from 75 to 65 per cent, the same figure as in July. A New York Times/CBS News poll points to a 14 point drop to 63 per cent since mid-August, although his rating had already slipped back to 67 per cent by late September. This suggests that increasing fears of a US recession might also have been a factor.

According to the Washington Post poll, only 14 per cent of voters blame Mr Bush specifically for the current budget situation, while 57 per cent blame Congress - split almost evenly between Democrats and Republicans - and 16 per cent say all are equally to blame.

In the New York Times poll, only 5 per cent single out Mr Bush; 52 per cent cite Congress, while 44 per cent blame both equally.

The polls indicate deep scepticism about Congress, but there is no clear message for the two parties ahead of the November 6 election. However, in the Washington Post poll some 63 per cent thought there was a greater danger that Republicans would go too far in helping the rich and cutting needed government services than thought the Democrats would go too far in keeping costly government services that are wasteful.

By contrast, only about 33 per cent took the reverse view and regarded Democratic policies as a greater danger.

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## UK NEWS

Survey of foreign takeovers by British companies shows 30% fall in value

## Slow growth hits expansion abroad

By Charles Leadbeater, Industrial Editor

SLOWER economic growth may be taking its toll on British companies' plans for international expansion through acquisitions, according to figures released yesterday which show a 30 per cent fall in the value of foreign takeovers by British companies.

The figures, compiled by KPMG Peat Marwick McLintock, the accountants and management consultants, show that British companies made 44 deals worth \$14.4bn in the first nine months of this year. In the same period last year British companies made 592 acquisitions worth an estimated \$20.4bn.

The estimates show that

cross-border acquisitions have been among the first casualties of higher interest rates and slower economic growth in the UK over the last year which has depressed industrial profits.

The KPMG survey of cross border acquisitions suggests that British companies may have decided to forgo expansion overseas in favour of maintaining investment in the UK. Recent business surveys have found that industry intends to maintain its UK investment.

The figures show that for the first time in recent years the UK has become a net seller of corporate assets. In the first

nine months of this year 258 British companies were bought by foreign groups in deals worth \$16.7bn.

In the same period last year 236 British companies were sold to foreign purchasers for \$18.9bn.

Britain's entry into the ERM could prompt an increase in the inflow of foreign investment.

Mr Gerry Archer, head of corporate finance at KPMG said: "Our joining the ERM is also likely to boost the UK's attraction to both US and Japanese investors looking for a foothold in Europe. We could thus see the continuation of high levels of sales of UK com-

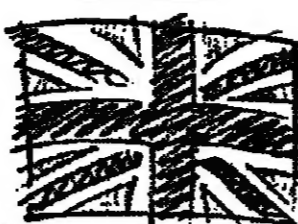
panies at high values as fresh foreign investment moves in."

The increase in foreign purchases in the UK stands in contrast to the position of other EC economies such as France, Germany, Italy and the Netherlands which have seen sales fall in the first nine months of the year.

The survey shows that during the first nine months of the year the US took over from the UK as the world's leading cross border acquirer, with 266 deals worth \$14.8bn.

Cross Border Deals Survey, available from KPMG Peat Marwick McLintock, 1 Pudding Dock, Blackfriars, London EC4V 3PD.

## BRITAIN IN BRIEF



## Chevron to sell 15% in North Sea

Chevron, the US oil company, has put about 15 per cent of its North Sea assets up for sale.

The package represents one of the biggest sales of North Sea properties since British Petroleum sold some of its North Sea assets to Oryx Energy of the US last year.

However, analysts differed widely in the likely value of the total assets, with estimates ranging from \$100m-2350m. The package accounts for some 35m barrels of oil in producing fields, about 15 per cent of Chevron's North Sea reserves under production. It represents total reserves, excluding exploration potential, of over 100m barrels of oil equivalent.

The sale will reduce Chevron's North Sea output from 84,000 b/d to 63,000 b/d. Chevron UK said it wanted to sell interests where it was not operator in order to concentrate on its core North Sea businesses.

## House prices on the rise

House prices rose nationally in September for the first time for three months, according to a survey by Halifax Building Society.

In spite of the rise of 0.5 per cent in the month, house prices were still 0.5 per cent lower than in September last year. Although Halifax said it appeared that the market had bottomed out, it found "no strong evidence" of an upturn in the near future.

The society said that if last week's cut in interest rates was followed by further cuts to 12 or 11 per cent, house prices might rise by 5 per cent by the end of next year.

## English for East Europe

A campaign to persuade 300 British companies to sponsor English lessons for Eastern Europeans has been launched by the English Speaking Union.

The organisation plans to open new branches in Poland, Hungary and Yugoslavia in January, and one in Estonia soon after.

David Hicks, director-general of the ESU, which aims to promote international friendship through the English language, said the revolutions in Eastern Europe triggered the new campaign.

## Co-operative merger

Co-operative Retail Services, the retail arm of the Co-operative wholesale and retail organisation, is to merge with the Cambridge Co-operative Society.

Over the last 20 years, CRS has helped consolidate the fragmented co-operative movement by merging with about 180 regional societies. The Cambridge Society, which has a turnover of about

£78m, runs 23 food stores, and employs 1,200 people. Some Cambridge Society food stores will be changed to the Leo's format, which is being heavily promoted by CRS in an attempt to propel it into the front ranks of food retailers.

## Free EC arts market urged

Tight EC controls on the movement of national treasures would create a damaging black market in European works of art and antiques, junior trade minister John Redwood warned.

He said the Community needed a healthy free market in such treasures despite fears from Mediterranean states that their national heritage would be plundered by their northern neighbours when EC borders disappear after 1992. Common Market rules currently allow national governments to impose whatever trade restrictions they like on national treasures.

## Ofgas accuses British Gas

British Gas was yesterday accused by the Office of Gas Supply (Ofgas), its regulatory

body, of hoarding up to 1.5bn therms of gas reserves.

Mr James McKinnon, Ofgas director-general, said that British Gas, which has the contract to buy most of the gas from the North Sea, was stockpiling supplies 15 times greater than those available in the open market.

If British Gas continues to stockpile, said Mr McKinnon, the market will be suddenly flooded when alternative sources of supply come onstream in 1993.

## Industry and the ERM

Mr Peter Lilley, the trade and industry secretary, attempted to reassure industrialists that their businesses would not be endangered by sterling's entry into the exchange rate mechanism of the European Monetary System, at the Conservative Party conference in Bournemouth.

In a speech which won him the first standing ovation of the conference, he said that the current economic slowdown would not be "anything like as severe as the recession of the early Eighties".

## Saatchi libel case verdict

Two former creative consultants of Saatchi & Saatchi, one of London's largest advertising agencies, have won a libel action against Mr Paul Arden, Saatchi's creative director.

Mr Philip Mason and Ms Rita Dempsey have received substantial undisclosed damages and an apology from Mr Arden in the High Court over remarks he made about them last autumn in an article in Campaign, the advertising industry trade magazine.

## French finance journal shuts

Financial Weekly, the business and finance magazine, has become a casualty of the advertising recession and is to cease publication.

The magazine, which is owned by Groupe Expansion, the French publishing company, has appointed Robert Rhodes as its liquidator.

Government to go ahead with £1.4bn cross-London rail link to ease capital's congestion

## Tories show unease on transport policy

By Ivo Dawney and Emma Tucker

MR CECIL PARKINSON, the UK transport secretary, yesterday gave government approval for the proposed £1.4bn east-west "Crossrail" train route across London.

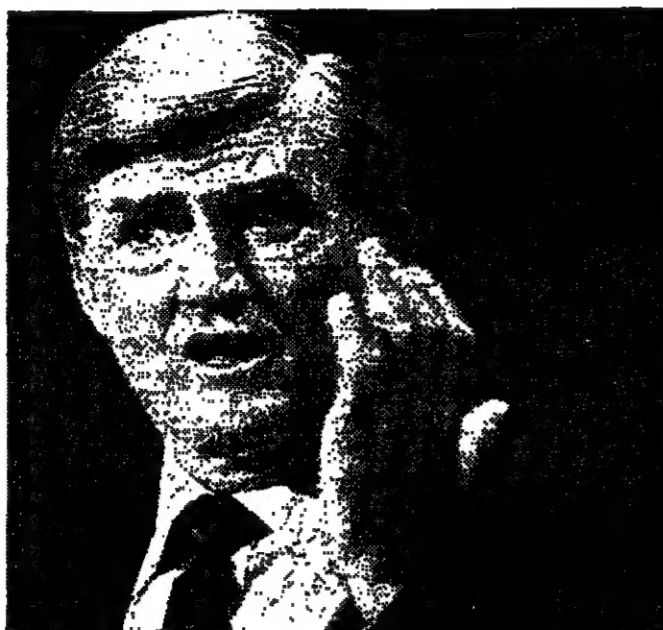
The announcement came at the close of a Conservative Party annual conference debate that revealed deep-seated discontent among the Tory faithful at the state of the nation's road and rail infrastructure.

The rail project decision, along with a plan to spread council house ownership, came as the only major policy announcements on a low-key opening day in Bournemouth, on the English south coast.

Around £200m has been allocated for initial studies into a new tunnel allowing British Rail's trains to traverse the capital between existing rail terminals at Paddington and Liverpool Street and relieve the congested Underground system.

Mr Parkinson said the project - scheduled for completion within the decade - was a "massive undertaking". It would add substantially to other transport modernisation projects including the extension of the existing Jubilee Line and a £70m updating of the Central Line, currently under way.

Together with other



On the defensive: Cecil Parkinson yesterday.

improvement schemes, these would add 15 per cent to London's public transport capacity. The additional gains coming from Crossrail had yet to be quantified, he said.

Some 94 motions had been tabled on transport at the conference with many openly deploring a perceived failure of

the government to address the issue of transport urgently.

Mr Jeremy Mordell, a local government councillor from London, won applause from the conference floor when he criticised plans to build bigger motorways and better roads. In a defensive speech, Mr Parkinson said that it was "non-

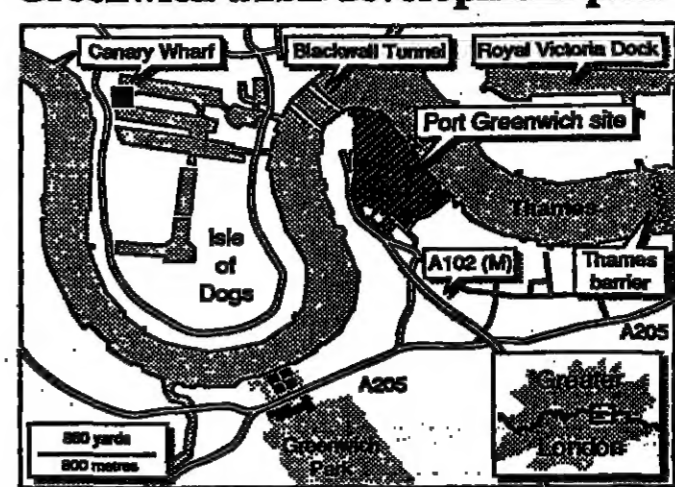
sense" that the government was against public transport when it was investing £55bn in the sector over the next three years. Even if rail capacity was doubled, it would still leave 85 per cent of traffic to go by road, he said. The transport secretary went on to promise a tough new crackdown on illegal parking on key roads, "red routes" to speed buses in city centres.

Enabling bills to allow the eventual privatisation of the former Dock Labour Scheme ports would be ready within a year. Mr Parkinson also reconfirmed the government's long-term commitment to privatise British Rail while adding that it would not be an easy or rapid task.

"The question is not about whether we should privatise it but about how and when," he said. Briefing reporters after his speech, Mr Parkinson - once a darling of the Tory supporters in the country - brushed aside the conference's downbeat reaction to his proposals for the sector.

But Mr John Prescott, Labour's transport spokesman, attacked his opponent for a "tired and uninspiring" performance aimed more at electoral considerations than at resolving Britain's transport problems.

## Greenwich £1bn development plan



Plans for a £1bn development on a 256-acre site on Greenwich Peninsula where the Royal Naval College is situated, in London's docklands, have been submitted. The site, owned by British Gas, which is to be known as Port Greenwich, will be developed by its subsidiary, Port Greenwich Ltd, in what is planned to be a joint venture with British Urban Development, the consortium of 11 property developers founded in 1985 to implement Mrs Thatcher's plans for the inner cities. The consortium dismissed as "totally untrue" claims in the press that the project was a "dead duck" and that BUD was to be "quietly wound down".



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...of business in the  
...of his recent  
...of General, and  
...of his, which has  
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...from the North  
...of his supplies  
...than these are  
...the open market.  
...General has come  
...whole, and he has  
...the market will be  
...needed when the  
...of sample  
...in 1951.

Industry and  
the ERM

Mr. Peter Laffey, the extraordinary secretary, presided in (positive) individualism. His four (uncongenial) underlings were indoctrinated by him, even into the extreme formalism of the League's Secretary System. At the conference, the Party was in mourning.

In a speech which was the first standing order of the conference, he said: "The current economic situation would not be any thing like as serious as the recreation of the League."

**Saatchi libel  
case verdict**

Paul former creative consultants of Seattle-based agency one of London's largest advertising agencies was a headhunter for Paul Aron, Seattle creative director.


By 1994, when the company had moved to a new office, Aron and an assistant, Mr. Aron, in the high-tech industry for more than 20 years, had been in the industry for more than 20 years, the chief executive trade magazine.

**French finance  
journal shuts**

The magazine, which is edited by George Bonin for the French publishing company, has appointed Robert Rhodes as its translator.



COVER  
BEST  
CE TO  
GULF  
EYONI



EVEN WHEN IT'S -30°C ON THE BOTTOM, IT'S STILL WARM ON THE BOTTOM.

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## UK NEWS

Japan link-up seen as good indicator

# Laura Ashley breaks even and omits dividend

By John Thornhill

LAURA ASHLEY, the frocks, fabrics and furnishings retailer which has been hit hard by the consumer spending squeeze, saw profits fall 95 per cent in the first half of the year and passed its interim dividend.

The company, which two weeks ago revealed a drastic paring back of its manufacturing interests with the loss of 1,000 jobs, recorded pre-tax profits of £317,000 in the 26 weeks to July 28 compared with £6.53m last time. The company also suggested that there would not be a great improvement in profits for the full year and shares fell 3p to 62p at the close.

Mr Andrew Higginson, the recently-installed finance director, said: "This half year was a very painful one for the company, its employees and its shareholders. But we believe that we now have very firm foundations for future growth."

The company pointed to a 30 per cent increase in sales to £173.92m, its rigorous rationalisation programme and a proposed link-up with the Japa-

nese Aeon Group as healthy indicators for the future.

Laura Ashley is continuing to cut its non-core interests in an attempt to strengthen its financial position.

In the half year, the company sold its Penhaligon's perfume business to The Limited, the US retailing company, resulting in an extraordinary gain of £4.8m.

It also indicated yesterday that it was to close its eight units franchisees in the second half and was looking to sell its Bryant knitwear manufacturing company and the Sandringham leather goods business.

Operating profits in the first half fell by 17 per cent to £7.39m from £8.88m as the company suffered from tough retailing conditions and escalating costs.

But all the company's geographical divisions recorded like-for-like sales growth and its operations in continental Europe and Japan proved especially buoyant.

Comment, Page 24

## Searching for a new owner in the corridors of power

Richard Evans on the collapse of the plan to develop the former home of the Greater London Council

THE ghosts of the former leaders of London's city government must be feeling some grim satisfaction today as another attempt to ensure a permanent change of use for County Hall comes to nothing.

The saga of County Hall, the imposing neo-classical building facing the Houses of Parliament across the River Thames, has been long and complex, comparable to a television soap opera, and with its own cast of heroes and villains.

Now, with the collapse of the redevelopment plan following the calling in of a receiver by County Hall Development Group, the Anglo-Japanese consortium which was due to buy the property for £150m, the writing of the concluding chapter seems as far away as ever.

As the home of London government, first of all under the London County Council and then for 22 years under the Greater London Council (GLC), it became the flagship for all local government. Latterly, under the aggressive, left-wing Labour Party leadership of Mr Ken Livingstone, it became a thorn in the side of Mrs Thatcher's government.

After a series of increasingly angry rows, she decided the only answer was abolition of the GLC and the other metropolitan counties, which were not surprisingly Labour-con-



London's County Hall, at the centre of fierce debate, and standing opposite the Houses of Parliament

trolled local borough. Plans to market the site for re-development were launched by the LRB late in 1988, but it took until June, 1989 before 13 consortia were ready with proposals.

County Hall Development Group, made up primarily of London and Metropolitan, New England Properties, Lazard Brothers and TR Property Investment Trust, was chosen from a

shortlist in June, 1988, and contracts were exchanged in the following December.

Following spilling tactics by Lambeth Council, a public inquiry, held from September 8 to November 6, 1989, accepted most of the development proposals, but the inspector criticised the height of the Belvedere office block planned behind the main County Hall building and on those grounds

rejected the application. The Environment Secretary withdrew permission for a go-ahead, but gave the opportunity for revised plans to be put forward.

This presented the developers with big problems, as meeting the inspector's criticisms would involve less space and reduce the profitability of the whole scheme. In addition, there was by this time a severely depressed property market and a difficult financial market in which to raise funding.

Following the planning permission rejection, the consortium was unable to meet the original October 1 deadline for the sale and went to the LRB

with a new offer - understood to be to buy County Hall for around half the original price.

The LRB, charged with maximising the return from County Hall on behalf of London's ratepayers, refused, and the County Hall Development Group announced it was calling in a receiver. The consortium's shareholders are expected to lose up to £50m.

The key question that remains unanswered is what now happens to County Hall? Sir Godfrey Taylor, chairman of the LRB, said he greatly regretted that CHDG was unable to fulfil the contract it had willingly entered into, and he would be talking to the receiver about the next steps.

A legal notice has been served on the consortium by the LRB to complete the sale by October 24.

It seems unlikely that these talks will be productive, but the LRB intends to press ahead with the sale of County Hall, and a spokesman said yesterday that it was optimistic of success.

Time is not new on its side, however, and the state of the property market will not help. With a general election now on the horizon, the LRB is expected to return some form of London government to County Hall, Mrs Thatcher will be more anxious than ever to see an early sale.

## TV chiefs appeal for change in law on broadcasting

By Raymond Snoddy

The government was urged to think again on three broadcasting issues - impartiality, ownership of Independent Television News and arrangements for maintaining an ITV network, by Mr Richard Dunn, chief executive of Thames Television and chairman of the ITV Association.

"There are now great uncertainties about ITV's 250m news service, about ITV's 24-hour news network, about the statutory requirements for impartiality across a wide range of its programmes, with very significant cost implications, let alone editorial ones", Mr Dunn told the FT conference in London.

Mr Dunn warned that present proposals on impartiality, where balance would have to be achieved on every individual issue, would not only have a stifling effect on programmes but that "programme makers and broadcast professionals may decline to be part of such a regime".

The ITV executive also appealed to the House of Lords which began examining the report stage of the Broadcasting Bill yesterday to reconsider the clause that forces a disposal of 51 per cent of Independent Television News shares.

The government, he said, was putting at risk a stable and securely funded independent news service to compete with the BBC.

Mr Dunn also criticised the

would be to run channels on the second orbital Astra satellite, the satellite system that broadcasts Sky Television.

Mr David Jamble, a senior director of the ITA Consulting Group, said that most of the ITV companies could afford to pay out more than their current revenues in a cash bid over the 10-year franchise without having to borrow money. Together, the 11 ITV companies could afford to pay a total of £20m over the period and still be a good investment compared with other corporations.

In general he highest bid would win, despite rules on quality, because no serious bidder was likely to progress to a programme schedule of significantly different quality to the existing ITV schedule.

Mr Bruce Fisman, chairman of Fireman Rea, a venture capital group, said a veteran of the last franchise round, predicted that there would be much competition for franchises this time. National companies in related industries such as music and film would wait until the franchise affair was over before taking their moves.

Venture capitalists would only come into the television sector if prospective management showed real financial commitment.

Mr John Blackmore, head of media buying at advertising agency Ogilvy & Mather, forecast that despite a current economic problems the advertising industry had won a decade of success. "I believe that on average across this decade total expenditure on advertising will increase by an average of 9 per cent per annum," Mr Blackmore said.

This would mean £12bn a year by the year 200 - just over double the present expenditure.

Gross income to the commercial television companies from sport advertising would grow from just over £2.3bn next year to almost £6bn by the end of the decade. In the same period gross radio advertising revenue would rise from £108m to £468m.

Representatives of Britain's main television channels will today try to persuade peers to reject controversial new government rules on impartiality in broadcasting.

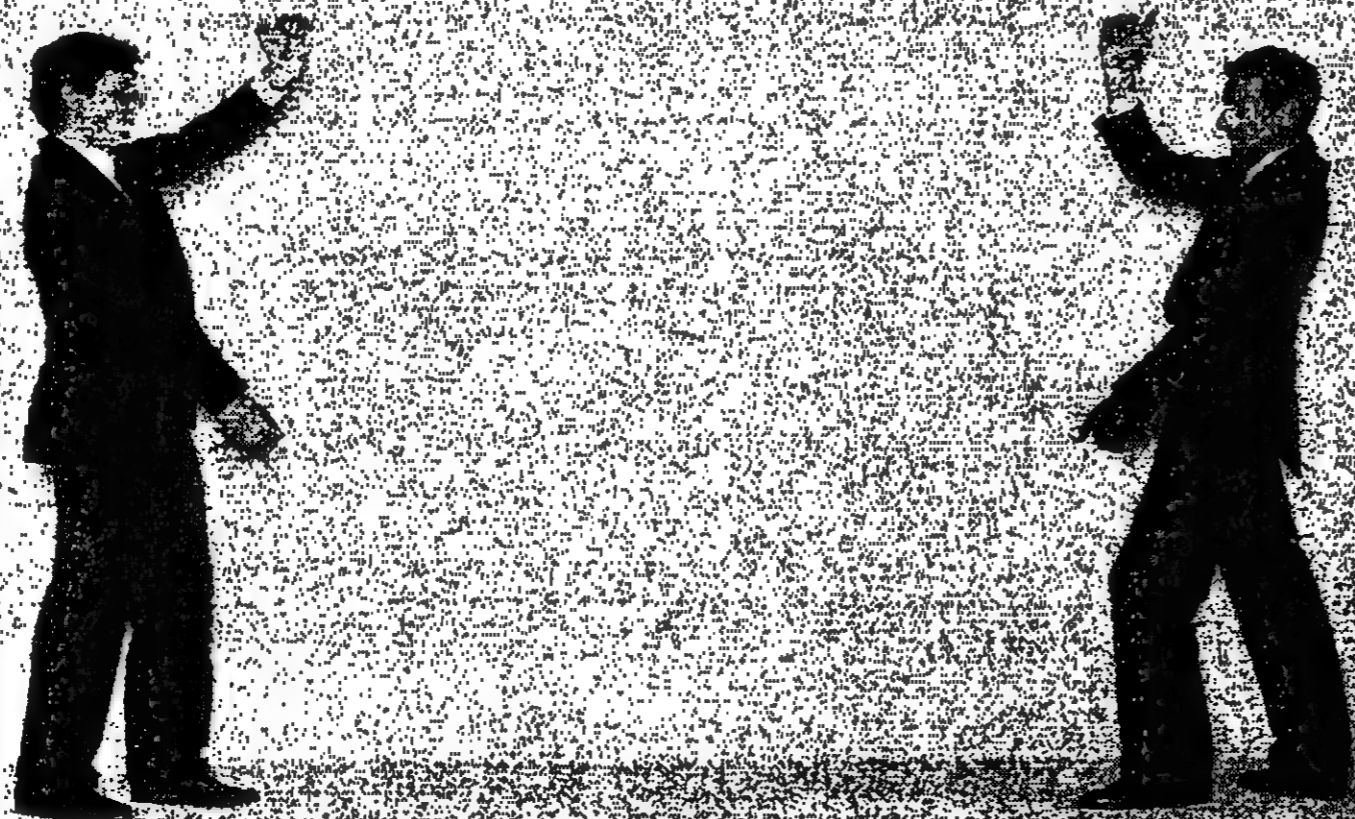
In a rare show of common opposition to the government proposals as currently drafted, the meeting will be addressed by Mr Michael Grade, chief executive of Channel 4, Mr Richard Dunn, and Mr John Birt, deputy director-general of the BBC.

The lords are expected to reach the controversial amendment tomorrow during the report stage of the Broadcasting Bill.

Broadcasters are complaining of proposals that will require the Independent Television Commission, the body that will replace the IBA, to draw up a code defining "due impartiality" in terms of individual issues and specifying the prominence to be given to balancing programmes or items.

Ministers are already indicating a willingness to look again at the controversial clause.

Channel 4 in a briefing paper for peers said that the wording on individual issues would "result in nothing more than tit for tat television."



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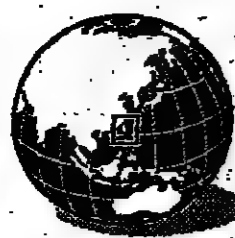
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Political strife below the law and order surface, Page 2

# TAIWAN

Wednesday October 10 1990

Fundamental weakness in the economy catches up, Page 2



After three years of liberalising economic and political reforms, Taiwan is facing an identity crisis —

external and internal. The Taiwanese must shortly resolve their relations with China as well as what kind of economy and society they want, says John Elliott

## Choices must be made

ONE OF Asia's most vibrant economies of the 1980s is facing an identity crisis. Forty-one years after General Chiang Kai-Shek fled from China's Communist regime and founded the modern Taiwan, this thriving island located 100 miles off the Chinese mainland has reached turning points on important political and economic issues.

The direction that Taiwan takes during what is popularly known as a "period of transition" will dictate its future identity and chances of continued economic success, based on wide-ranging political and economic liberalisation policies started three years ago.

One issue at stake concerns the island's relations with Peking, which it does not officially recognise. Rapidly developing indirect business and other ties, plus growing democracy in Taiwan, are building up irresistible political pressures for relationships with Peking to be clarified.

Of more immediate importance is the economy of the island, which has made itself the world's 12th largest trading nation, even though it is not internationally recognised as a sovereign state. Now its population of only 20m has to

decide whether it wants to maintain Chinese traditions of hard work and entrepreneurship, or follow the other Chinese crass — gambling — and perpetuate a declining work ethic.

Economic growth is down to 4.5 per cent or less this year following a stock market crash in recent months which brought the Taipei exchange index tumbling by 70 per cent.

Vincent Siew, Minister for Economic Affairs, says that the country is in for a couple of "difficult years". That was before the government had had time to assess the likely damage caused by the Gulf crisis which is seriously worsening economic prospects. Bankers fear that there could be a spate of financial and industrial collapses if sharply rising petrol prices and other effects of the Gulf hit hard on the economy.

"The days of reckoning have come after a period when we lived in an illusive state with lack of proper monetary and fiscal policies. We are having a good hangover," says Douglas Hsu, president of Far Eastern Textiles, one of Taiwan's largest companies.

"We got lost for three years with structural growth that was not healthy because peo-



Future identity and continued economic prosperity are at stake for Taiwanese

ple went into the money game which undermined their attitudes to work," says Siew. "Now people are applying again for jobs and we have put our car back on the right track."

The problems have stemmed from Taiwan's huge economic success. It has had a growth rate averaging 9 per cent for nearly 30 years and has accumulated foreign exchange reserves topping US\$74bn at their peak.

This generated huge amounts of money for gambling on Taipei's casino-style stock exchange. The ability to make quick fortunes seriously damaged the traditional work ethic and, along with other factors, has deterred industrial investment.

Law and order deteriorated during this period and the government failed to respond effectively with authority to a wide range of social and economic issues.

These events exposed the shortcomings of a community whose success has been based

on a mixture of basic Chinese culture, plus the influence of Japan, which ruled from 1895 to 1945, and the US, which subsequently had close links. This mix has not provided the established traditions and self-confidence needed to enable the island to survive through difficult times.

The current situation would be far worse if it were not for a new tough prime minister who was appointed in May by President Lee Teng-Hui. He is Han Pei-Tsun, a 71-year-old mainland, who became defence minister last year, having been a four star general for many years, chief of the general staff, and a feared power behind the throne of the Kuomintang (KMT).

Hsu has brought to Taiwan's political leadership some of the administrative authority and effectiveness of a military regime. Such awareness of touch had been lacking since martial law was lifted and multi-party democracy introduced three years ago.

Despite initial strong opposi-

tion to his appointment, Hsu is immensely popular, beating even the Taiwanese-born President Lee in the opinion polls with an 88 per cent approval rating. He is bringing simple straightforward authority and government to a people who have shown an inability during the past three years to cope with the sudden rush of untold freedoms and wealth.

"Premier Hsu is certainly the right man at the right time to re-inject discipline and values," says Hsu, echoing the general relief felt by the business community.

But there is concern about how long the premier's popular honeymoon can last. His general law and order theme is widely welcomed, but he may eventually go too far because he basically believes in old values and the KMT's absolute right to rule — attitudes which are out of tune with the affluent Taiwan of the past few years.

Complicating these economic and social issues is the uncertainty caused by Taiwan's tor-

truous relationship with Peking.

Officially, Taiwan's KMT government still claims to be the rightful government of all China. Peking on the other hand regards Taiwan as a recalcitrant province which must one day return fully to Chinese sovereignty, preferably around the time that the British and Portuguese territories of Hong Kong and Macao return in 1997 and 1999.

But there is enormous pressure within Taiwan for the relationship to be clarified quickly so that growing business links, which at present are formally conducted on an indirect basis, can be carried out directly. This has become one of the most talked about issues in Taiwan as the island searches for an identity to give it security.

Businessmen have a dream of Taiwan playing a major role in the development of China's coastal regions, similar to that played in the south by Hong Kong. But the KMT still dreams of reuniting Taiwan

with a democratic non-Communist China — a development which is unlikely to come about in the short time scales of businessmen's corporate plans.

However, the KMT government is responding to the business and other pressures with new laws and by softening its stance. It is now promoting an idea of "one country, two regions" with "two separate legal jurisdictions". This would give Taiwan more autonomy and identity than Hong Kong and Macao are to have under their "one country, two systems" when they return to China's control.

Semi-official contacts with Peking are increasing and Ma Ying-jeun, executive secretary of a government committee handling mainland policy, says the president wants to "achieve national unity on moves towards reunification". Ma also acknowledges that there is a "more relaxed approach" being adopted towards the KMT's "three noes" policy which bans contacts, negotiations and compromise with Peking.

However, Peking has failed to respond constructively to these nervous olive branches. Its tactic seems to be to sit back and wait for Taiwan to be pushed by its own internal pressures into making more and more concessions.

It also seems to suspect that there is still a significant body of opinion in Taiwan which wants to formalise the island's de facto independence and break away for ever. There is, however, little evidence of Taiwan's vocal but small independence movement gaining ground — though it could do so later if the government fails to solve the island's fundamental identity problems.

The stand-off between Peking and Taipei is bedeviling Taiwan's attempts to gain international diplomatic recognition. Last year it generated a lot of publicity when it gained full recognition from small countries such as Grenada. But Peking has hit back by gradually voting three of Taiwan's most significant international allies — Saudi Arabia, South Korea and Singapore.

Behind all this is growing rivalry between the old Taiwanese, who were already on

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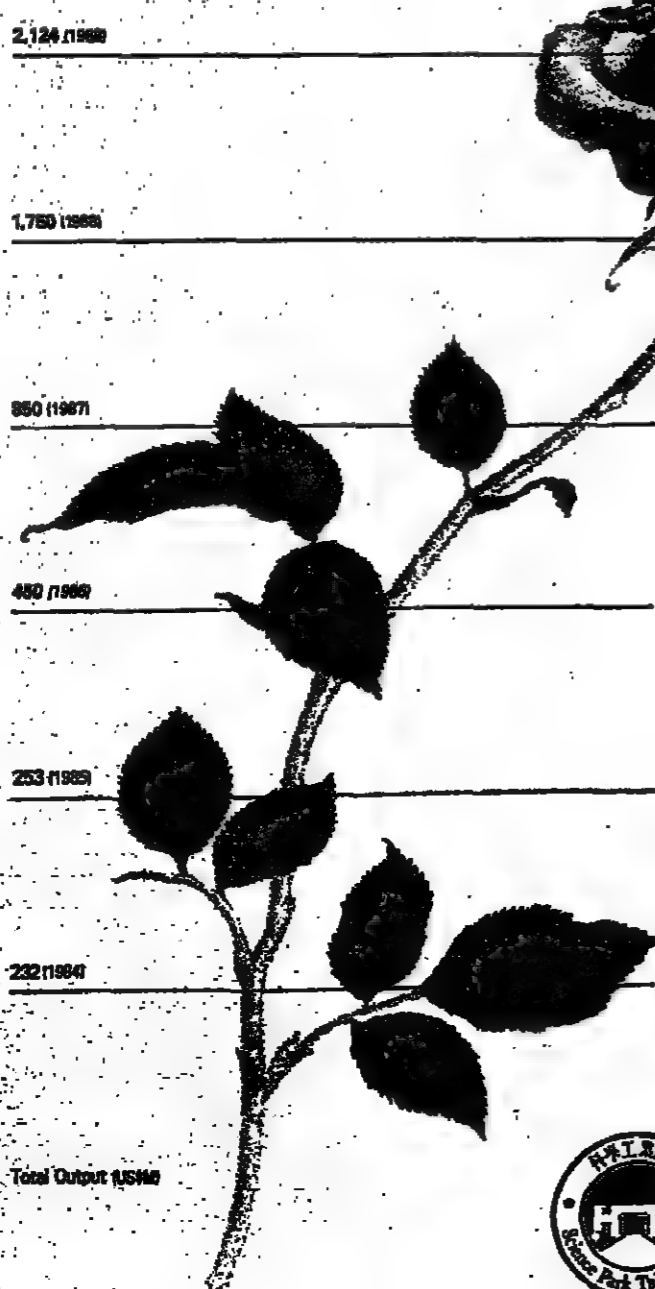
the island before Chiang Kai-Shek arrived with between 1.5m and 2m followers in 1949, and the mainlanders who came after them.

The majority Taiwanese have been gaining in influence and power, especially since President Lee took office early in 1988, and there are power struggles within the ruling Kuomintang between these people and both first and second generation mainlanders.

These power struggles emerged in public just before President Lee was elected in June. At that time Hsu, then the Defence Minister, lined up with an anti-Lee faction. But the president responded deftly to these challenges after his election by making Hsu the prime minister.

This assuaged some of the old mainland feeling and provided the government with its new law and order theme. The move has bought the government time — but the basic questions about the future of the economy and relations with China need to be resolved.

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## TAIWAN 2

TAIWAN'S Legislative Yuan, the country's parliament, received a security-minded face-lift when it reopened for its 86th session last month. It has been the scene of violent demonstrations in the past couple of years.

Portable microphones, often used as weapons by angry legislators, were removed. Bullet proof screens were erected on the edge of a public balcony, which had often been used as a platform by protesters. Entrances for press, public and members were segregated and equipped with electronic checks.

It was all in tune with the law and order image of Hsu Pei-Tsun, the new prime minister. But it failed: the basically unsettled and turbulent nature of Taiwan politics burst to the surface on the opening day. Members of the main opposition party, the Democratic Progressive Party, demonstrated noisily before walking out after one of them had squirted water at the elderly Speaker, Liang Su-Yung, a senior member of the ruling Kuomintang (KMT) party.

"The DPP members are doing something fatal to their own party because their action won't be accepted by the public," says Liang, voicing establishment hopes that the demonstrations would subside and allow parliamentary business to proceed. Only two or three bills were passed in the last session and there are now 300 waiting to be processed, including about 50 urgent measures dealing with issues such as labour laws, financial markets and pollution control.

But, as the DPP members know, the real political future of Taiwan is not being fought out in the rowdy and unruly parliamentary chamber, but among the members of the KMT. The party has split during the past year into increasingly complex factions.

The primary issue at stake is how far and fast Taiwan should move on constitutional reform and how this links in with the KMT's constitutional insistence that it has continued to be the legitimate government of all China since modern Taiwan was formed in 1949.

"We want to move ahead on democratic reforms, but we also want to maintain the legitimate status of representing the whole of China," says James Chu, the KMT spokesman. Chu acknowledges that people who want to slow down democratic reforms can play this China card to block progress.



Hsu Pei-Tsun: law and order image

## POLITICS

## Future held up by the past

President Lee Teng-hui, who is believed to favour substantial democratic reforms in principle, has himself said that Taiwan's long-term stance towards China could be affected. He has to be particularly careful because, unlike the old-guard KMT leaders from the mainland, he was born in Taiwan and is rumoured in both Taipei and Peking to have indicated past interest in Taiwan independence.

The problem stems from Taiwan's current constitution, which maintains the fiction that the government has all China status. About half the Legislative Yuan's 252 members were elected on the mainland before 1949, and the National Assembly, which elects the president, is dominated by old mainland members.

This is finishing out perhaps the most important long-term battle of all - the future power within the KMT between, on the one hand, the mainlanders and their offspring and, on the other, the native Taiwanese. Although both groups are ethnic Chinese, the looming split between them has some of the hallmarks of clashes seen elsewhere in Asia between different ethnic groups and could

cause wider social tensions later.

Within the KMT, the president represents the Taiwanese while Hsu, the prime minister, is one of the mainland elders. Hsu was chosen by the president because of his background to placate the mainlanders during the period of democratic reform. There have not so far been open clashes between the two men, both of whom need each other, but problems could develop. There are four main areas of democratic reform under discussion:

● The first, which until recently was the most explosive, involves the retirement of the pre-1949 mainland-elected elders of whom about 120 are now left in the Legislative Yuan and a much larger total of at least 600-plus in the National Assembly. Their existence has drastically reduced the effectiveness of Taiwan-elected members, especially the DPP.

The supreme court has decreed that all the elders must retire by the end of next year and they have reluctantly agreed to do so. The DPP wants them to go this year, but this is not a live political issue. ● The most emotive issue now is how the president should be elected. President

Lee's current term ends in 1995 and he has said that the election should be by the Taiwanese people. But he has shied away from meeting DPP demands that this should involve a popular vote because that would exclude any pretence of covering mainland China.

Some form of indirect poll therefore seems inevitable. It is likely to be through an electoral college, possibly the National Assembly which, when shorn of its elders, would be dominated by people representing Taiwan constituencies. But to continue the all-China theme, some special category of general members is likely to be invented. Liang favours a new category of people drawn from those who left China in 1949 with the elders. This would help to maintain the influence of both first and second generation mainlanders.

● Also planned is the election of the governor of Taiwan and the mayors of the two leading cities, Taipei and Kaohsiung. This is likely to be by popular vote since it does not carry China connotations.

These developments follow a national conference called by the president for the end of June. A reform committee, packed with KMT members and excluding the DPP, has been set up to put forward proposals for reform some time next year.

Meanwhile the two main political parties are embroiled in their own internal splits. While the all-powerful KMT is basically divided between mainland families and Taiwanese, one outspoken leader of the DPP, Gau Jeng Ju, has broken away saying he will form a China Social Democratic Party.

"We need a party which develops real public policies instead of just concentrating on issues like independence and reunification with China," he says. "The DPP has no strength beyond the fact that the KMT is corrupt. People support the DPP only because the KMT is not good."

Peter Elliott

## ECONOMY: Peter Wickenden

## Back to hard reality

50 per cent rise over three years.

But most exporters got by: they reduced their large profit margins and paid a little more attention to productivity. And orders that had moved from Taiwan to China and South Korea switched back again when instability erupted in those countries last year.

Many companies got a new lease of life and put off investment in automation and production of higher quality goods. Export-generated foreign exchange (and a good deal of hot money) continued to pour in to Taiwan.

As early as last spring, the government took bright at money supply growth figures

Foreign exchange reserves fell this year from \$73.6bn in January to \$65.9bn by the end of July.

Perhaps the government was also loath to admit that in Taiwan a stock market crash could bring on a slump, whereas in most other economies it could only be the other way around. But, as Siew now acknowledges, at least 2.5 per cent of last year's 7 per cent GNP growth was due entirely to what he calls speculative money games.

Labour intensive industries have moved en masse to China and other Asian nations rather than stay here and upgrade. It is a typically short-term solution adopted by small Taiwanese businessmen out for short-term gains. But even large companies with long-term plans lost faith in the domestic investment climate as land prices shot up, crime and environmental problems increased, and the ruling Kuomintang party became preoccupied with internal strife.

Dependency spread to the ranks of senior government officials such as former Vice Economics Minister Wang Chien-shien (now Finance Minister) who in the spring resigned in disgust at widespread lack of respect for the law.

With Hsu Pei-Tsun, a former four-star general heading the cabinet, business confidence is still low but the social rot has been largely stopped.

With a wary eye on inflation figures in the wake of the Gulf crisis, the government is now adopting a cautious expansionary policy. For the first time in eight years the central bank reduced bank reserve requirements under heavy pressure from loan-starved industry.

In August NT\$300bn of post office reserves were released to local banks, and the cabinet also approved direct loans

totaling NT\$42.5bn to small companies. In addition, industrial-zoned land is to be sold at a discount and new tax incentives will be made available to encourage research and development.

A drop in property prices this year has also improved the prospects for getting the infrastructure projects started or back on schedule. These include Taipei's mass rapid transit system, a second north-south freeway, and a fifth naptha-cracking plant for the state-run Chinese Petroleum Corp. After three years of wrangling with local residents, the crater project was finally started in late September.

Some analysts do not share

## Taiwan depends on manufactured exports

the government's hopes that these projects will give the economy a shot in the arm. Delays will continue because of the shortage of labour, and there will be a long wait before there is any effect on domestic demand, says Wang Su-Wang of the Chung Hwa Institution for Economic Research, the government's economic think tank. The commencement of the naptha-cracker may be of psychological benefit at best.

Wang is also sceptical about the effect of credit-loosening measures. According to the Institute's latest industry survey, tightly-regulated state-run commercial banks now have more liquidity but are not willing to lend to ailing companies. More than a third of the companies listed on the Taiwan stock exchange are now said to be in financial difficulty.

Siew is optimistic for the long term. He is content to sit through one to two years of low growth while industry restructures with government assistance. At present, he says, high-quality, high technology products account for about 55 per cent of total exports, and the proportion is rising. In the wake of the stock mar-

## Companies will have to merge to survive

ket crash, the service sector, which now accounts for more than half of GNP, has proved vulnerable. With a small domestic market, Taiwan still depends on manufactured exports and the question remains whether the small-scale nature of 90 per cent of Taiwan's industry will continue to be its secret weapon in the future.

Vice Economics Minister P.K. Chiang says that small-scale means flexibility, and that this has enabled industry to weather previous storms. In the past industry has moved nimbly from one low-tech product to another.

But that may no longer be so easy in the capital-intensive, high technology environment that the government wants to create. Prof Wu Hong-Yi agrees that companies will have to overcome their reluctance to merge if they are to survive.

If they can, and if foreign industry continues to put in vital technology and direct investment, Taiwan will still emerge with a formidable modern industrial economy.

KEY FACTS		
Area	36,000 sq km	
Population	20.11 million (Feb 1990 estimate)	
Head of State	President Lee Teng-hui	
Currency	New Taiwan dollar	
Average Exchange Rate	1989 US\$1 = NT\$228.88	
	1989 US\$1 = NT\$228.41	
ECONOMY		
Total GDP (US\$bn)	122.3	146.6
Real GDP growth (%)	7.3	7.4
GDP per capita (US\$)	6146	7286
Current Account Balance (US\$bn)	10.2	11.4
Exports (US\$bn)	60.6	68.2
Imports (US\$bn)	49.7	62.3
Trade Balance (US\$bn)	10.9	13.3
Main Trading Partners (% of total value)		
Exports		
US	38.7	38.2
Japan	14.5	13.7
Hong Kong	9.2	10.6
Imports		
Japan	29.9	30.7
US	26.2	23.0
Public external debt (US\$bn)	1.5	1.1
Consumer prices (% change pa)	1.3	4.4
Unemployment (% of labour force)	1.7	1.6
Total reserves minus gold (US\$bn)	73.9	73.2

Source: Datastream, Economist Intelligence Unit

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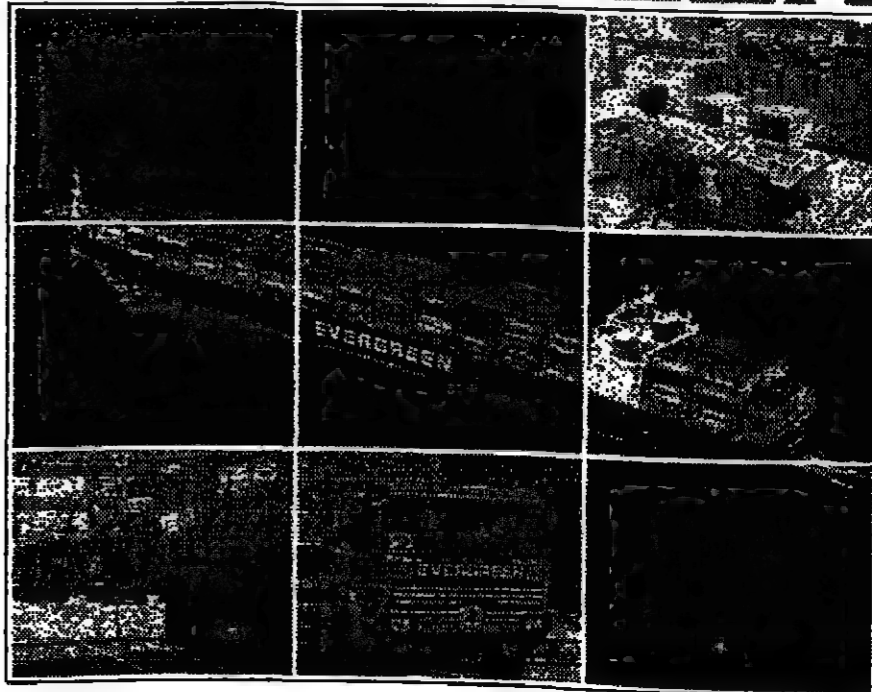
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## TAIWAN 3

CHINA: Peter Wickenden

## Ties are stronger

THE PRESIDENTIAL office spokesman Cheyne Chiu welcomed a recent press conference where Taiwan's policy towards China wasn't in a muddle. Other countries pondering their relations with the two, foreign businesses considering investments and, of course, the Taiwanese themselves, could also be forgiven for confusion when they reviewed developments this year.

At his inauguration in May President Lee Teng-hui said that the "rebels" who have run China for four decades would be recognised within one year as a government, but still an "illegal" one. He also said that Taiwan's government would be willing, under certain conditions, to talk to Peking about reuniting Taiwan with the Chinese mainland.

This was radical stuff in Taiwan, but that statement was just the start. Taiwan next proposed a quasi-governmental intermediary body to solve civil and trade disputes, with each side having offices on the other's patch. The People's Republic's response was guardedly positive.

Meanwhile, the Economics and Justice Ministries made proposals for starting direct trade and investment across the strait. Restrictions on visits to China by Taiwan residents were relaxed and the Chinese press was allowed to cover news on the island.

It seemed the government had caught the Taiwan people's "mainland fever." But

then Saudi Arabia's sudden switch of diplomatic ties from Taipei to Peking in July threw all into doubt. Singapore and Indonesia, long unofficial allies of Taiwan, also moved to mend their ties with Peking.

Officials blamed these setbacks on the international confusion caused by Taiwan's rapid softening toward China. Calls were made for a six-month freeze, since China had not responded amicably to Taipei's initiatives. Within weeks, however, President Lee was over-riding the policy-making power of the cabinet's mainland affairs committee by forming a new top-level National Unification Commission, with himself as head.

Then, as the Taiwan team prepared to leave for the Peking Asian games, the draft of a law governing relations across the strait was finished after two years of debate and huge revisions. To the surprise of many, it does not provide for direct trade, investment or transportation.

To make sense of all this, one must separate the politicians' rhetoric from their reasoning, and look at the problem from four angles.

Most simplistic in their argu-

ments for rapid opening up to China are the bosses of Taiwan's 90,000 factories. To them the mainland is the nearest source of affordable labour and raw materials, in some cases another export market too.

Professor Wu Hong-Yi of the Taiwan Institute of Economic Research. In the past three years at least 1,000 Taiwanese companies have set up production lines in China or moved there wholesale. They have poured at least \$1.2bn into the country. But the debate over direct trade and transport investment only really started when Y.C. Wang, chairman of Taiwan's largest conglomerate, the Formosa Plastics Group, joined in early this year. FPG's main product is ethylene, and as more than half its customers are food processors, Tunde, a fishing cheap plastic objects have gone to the mainland, Wang wants to follow.

Other large companies such as Wei Chuan and President Electronics, Taiwan's two leading food processors, Tunde, a construction and textiles group, and several of Taiwan's ten auto makers have tentative plans to invest in China. They are applying great pressure on the government.

How long the government can resist is uncertain. At the moment the large foreign companies upon which Taiwan's depends for the technology to upgrade its own industry are getting conflicting signals.

While John Ni in the Economics Ministry's Industrial Development and Investment Centre promotes Taiwan as potentially a "good base for the China market", Ma Ying-jeou of the cabinet's mainland affairs committee says: "We have no intention to go beyond indirect trade and investment. Some of Taiwan's businessmen are not sophisticated enough in mainland affairs."

Peking says it will take Taiwan back by force if necessary. It proposes a "one country, two systems" model like the one which will apply to Hong Kong, but ostensibly more liberal.

Taiwan's draft mainland relations law is based on a "one country, two areas" formula. Under this, each government would maintain its existing jurisdiction but would recognise the other's laws when it came to solving civil disputes. "But we have not retreated from our earlier position that we are the sole legiti-



President Lee Teng-hui

mate government of China," stresses Ma.

The third angle for scrutiny is the world of politics. No right-minded politician in Taiwan wants unification with a communist-controlled mainland. But the issue is being used in the struggle for control of Taiwan between ageing mainland Chinese and the Taiwanese. "The KMT mainlanders accuse President Lee [who is Taiwanese] of supporting Taiwan independence, and argue for a slowdown in democratisation," says a political analyst at National Chung-Hsing University.

Many analysts assume that President Lee formed his National Unification Committee in a desperate bid to please both the KMT old guard in Taipei and the Communists in Peking. The DPP suspects that the KMT would sooner make a secret deal with the Commu-

nist Party under which it would stay in power than see complete local democracy under another party's rule: both the KMT and the Communists fear that if the Taiwanese could rule this island, they would opt for forming an independent country.

The fourth factor is thus the people, and they are the most unknown quantity. Every opinion poll concludes that the vast majority approve of unity with a democratised China. But some analysts insist that the questioning is biased, that KMT ideology pervades education, and that even now people dare not express their real views (advocating independence remains illegal).

Predictions are hazardous, but several things seem inevitable. Big business will get its way and direct trade, if not direct large-scale investments, will happen sooner or later. The advantages to both economies are too great to miss.

"Mainland fever" will continue to rage, and private contacts will flourish.

The Taiwan government is being practical in realising that this necessitates forming an arbitration and mediation body. But this would soon prove inadequate, and direct, open negotiations would have to start. In Taipei's case it would mean renouncing its claim to be the sole legitimate government, and in Peking's case it would mean admitting that Taiwan's capitalist mode has come out on top.

## FOREIGN POLICY

## Stalled on sovereignty

TAIWAN'S FOREIGN relations have taken three serious blows this year that make the heads of its foreign policy look more non-sensical and ill-conceived than ever.

Saudi Arabia, Taiwan's only middle-east ally and one of three significant countries still with embassies here, switched diplomatic relations to Peking in July. It was sudden, but not surprising. The Saudis needed arms from China, not money, which is all Taiwan can offer.

Indonesia, which has been Taiwan's "pragmatic" or "flexible" foreign policy will not work while it continues with the sovereignty claim, and will only continue until no more countries can be tempted by development aid.

Chang also agrees that other countries are confused by the unification debate, and Taiwan's rapid moves to lessen tension across the strait by allowing increased people-to-people contact. But he does not see unification happening for perhaps another 20 years.

Citing the experience of the two Germanys, Chang says that a condition for unification is trust between the peoples and not just the governments. He glosses over the indignance caused by Taipei's sovereignty claim, saying that trust is impossible while Peking continues successfully to isolate Taiwan internationally and refuses to let it pursue its own foreign affairs.

The sovereignty claim looks more and more like an obsessive milestone round Taiwan's neck. Its substantive relations around the world are friendly and improving.

But the rules of diplomacy can only be bent to a degree. Taiwan is preparing to recognise the existence of the Peking government next year for the sake of introducing local democracy. When it will go one step further and drop the sovereignty claim is uncertain. Cynics believe it will happen only when Taiwan runs out of cash.

However, to do it when the island is rich, democratising and opening up to the world would only earn it international admiration.

Peter Wickenden

PROFILE by Peter Elliott

## Call for hard work

"WE WOULD like to see the economy back to normal so that the Chinese people's tradition of hard work can be restored," says Vincent Siew, Taiwan's new minister for economic affairs.

Siew has taken on responsibility for Taiwan's economy at a bad time. But he subscribes to the view held by the government, many academics and some businessmen that Taiwan must go through its current downturn in order to shake off the money-making mania of recent years when casino-style gambling on the stock market replaced the work ethic.

"I don't think the situation is so bad. We have been at a cross roads, and now we are turning into a very healthy development because in the past three years we have had what was really unhealthy growth with the money game and now we are trying to turn things onto the right track."

Nearly 20 per cent of economic growth came from stock market activities, he says dis-

approvingly. "Now working attitudes are improving and people are applying for jobs."

"Of course, you have to suffer low growth or maybe sometimes negative growth for one or two years before you can adjust all structures in the right way."

Siew has considerable experience after 11 years in government service. This was mainly in trade and economic posts and included becoming director general of the Board of Foreign Trade in 1982 when there was negative growth.

He comes from a Taiwanese farming family and is one of the few ruling party politicians who can mix and talk easily with the people. This gives him an advantage when dealing

with two of Taiwan's economic problems, the work ethic and environmental issues.

He is now in the process of adjusting government forecasts for this year's growth, initially from 7 per cent to 5.5 per cent and now down to 4.5 per cent. Rapidly rising oil prices may push this figure down further.

"Next year will also be very difficult for us," says Siew. "But after one-half or two years of adjustment we predict that the whole situation will be turned around."

The figure for next year could perhaps be even lower than 4.5 per cent, but should "not be negative" because of large and long-delayed government and other infrastructure projects.

Siew's reputation for mixing easily was enhanced recently when he helped to end years of environmental protests over a planned big naphtha-cracking project at China Petroleum's refinery in Kaohsiung.

Siew says the company has a "moral responsibility to have a good neighbour policy." He says that environmental lobbyists in general, who have become increasingly influential, are being "constructive" if they "make a reasonable appeal and push the government to pay more attention to environmental protection." But a purely negative environmental approach was harmful to economic growth, as Taiwan has seen.

"You cannot just view this



Vincent Siew

from one angle," says Siew. If you look back, not too many industries spent money on environmental protection or pollution control until environmentalist movements started to appear. So I do not have any sympathy with our industries."

It is not fair just to complain about environmentalists, he says. "That is why, on the one hand, I remind industries that

they must take into account that pollution control has to be included in their projects. On the other hand, I would advise environmentalists that they must have patience and cannot expect to all the dirt to be clean overnight - it takes time."

He lists as his aims:

● "To stimulate investment confidence, which means I must try to remove all investment barriers;

● "To have more money spent and more attention paid to technology research, and to speed up our upgrading of industries;

● "To achieve active participation in international economic activities so we can promote investment and trade relations with foreign countries.

● "To restore economic order and discipline so that anything that is not healthy or not contributing to our economic order will be regulated. We are trying hard to liberalise our economy, but law and order is also important."

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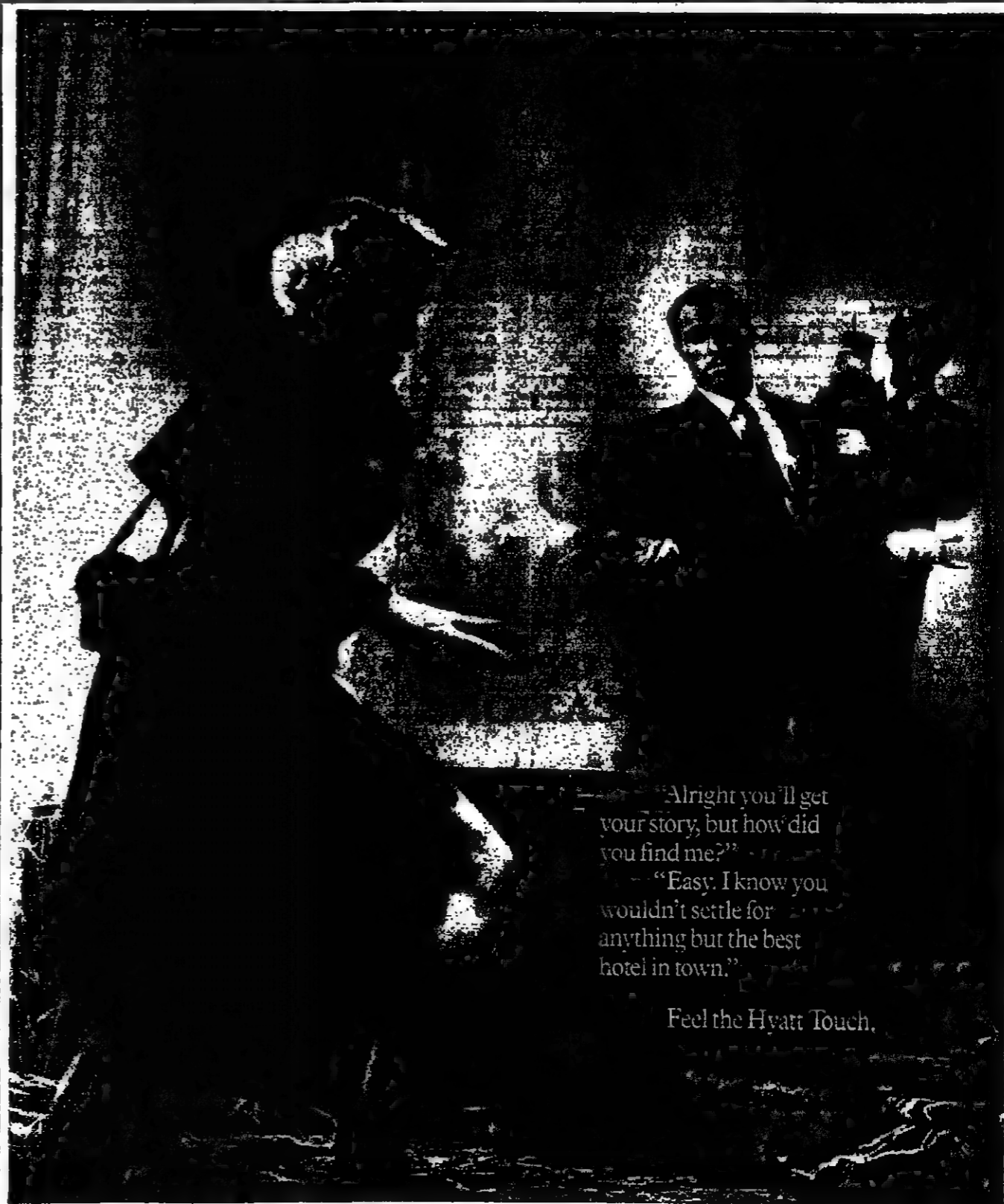
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## TAIWAN 4

TRADE: John Ridding

## Change of direction

TAIWAN'S EXPORT machine, dynamic even by the standards of East Asia's fast growing economies, has lost much of its steam.

In the first half of 1990, exports recorded their first contraction since the early 1980s, falling by 0.8 per cent to \$31.9bn. Officials at the Board of Foreign Trade expect more, if any, improvement for the year as a whole.

The reason for this downturn lies largely in a reversal of the factors which prompted Taiwan's dramatic export performance in the latter half of the 1980s. The NT dollar, which was undervalued in 1986, has appreciated by about 40 per cent since then, while wage rates have seen similar increases.

The consequent loss of competitiveness has been exacerbated by the emergence of new, low cost exporters in South-east Asia, which are successfully exploiting the strategies previously employed by Taiwan, South Korea and Hong Kong.

As a result, Taiwanese manufacturers find themselves sandwiched between cheaper producers among the ASEAN nations and the market leaders in Japan, Europe and the US.

In spite of the current slowdown, Taiwanese officials are relatively sanguine. "It is not a very good performance," admits Chiang Pin-Kung, the vice minister for economic affairs, "but Taiwan is undergoing a period of transition."

He argues that current trends reflect necessary adjustments in the structure of the island's manufacturing economy.

One of these adjustments is a lesser role for the country's export machine. "We want to reduce our reliance on trade," says Chiang. "We have to develop our domestic market through consumption and investment."

Shen Ke-Sheng, director general of the board of foreign trade concurs. "It is natural to see some slowdown in export growth. We can't expect to keep expanding shipments by 20 per cent a year."

At the same time, export industries are moving towards more capital-intensive, higher value added production and away from traditional labour intensive goods.

Whereas shipments of textiles, footwear and apparel have fallen this year, exports of machine tools and computers have shown gains.

For many of Taiwan's com-

panies, however, particularly the small and medium manufacturers which dominate the industrial structure, such adjustments will be difficult.

They lack the capital to invest in automation and research and development and have often seen the best solution to the more difficult export environment as transferring production to lower cost countries.

While the more difficult environment is presenting Taiwanese exporters with tricky adjustments, it has also contributed to a marked lessening

## One adjustment is a lesser role for the island's export machine

of trade tensions with the US. Taiwan's largest trading partner, which accounts for one-third of all shipments from the island.

Taiwanese and US officials express satisfaction at the reduction in the bilateral trade imbalance which has seen Taiwan's trade surplus with the US shrink from an enormous \$16bn in 1987 to \$12bn last year and a forecast level of less than \$10bn this year.

There is some disagreement about precise figures. According to US department of commerce statistics, which identify US imports by value added and country of origin criteria, the reduction in the deficit is less than that shown by Taiwanese data which use a definition based on the final point of shipping.

Consequently, while Taiwan forecasts a fall in the trade surplus of more than 20 per cent for 1990, the US estimates a more modest 13 per cent decline.

In spite of the discrepancy, which seems to reflect the increase in Taiwanese assembly operations in lower cost production bases in the region, US officials are pleased with the progress made since the late 1980s.

"Of course, there are some contentious issues remaining, such as intellectual property rights," says one official, "but the general situation has seen a great deal of improvement."

The declining share of exports going to the US reflects the Taiwanese government's policy of diversifying exports.

and reducing dependence on American consumers. Exports to the EC have increased steadily, from \$3.2bn in 1986 to about \$8.4bn last year.

Trade with ASEAN nations has also grown sharply and the region as a whole now represents Taiwan's largest trade surplus. The last few years have also seen strong growth in trade with mainland China.

Total bilateral trade, according to Hong Kong statistics, amounted to \$3.4bn last year as Taiwan exported manufactured products ranging from synthetic fibres to electronics and imported resources and raw materials.

But the pace of trade expansion is now beginning to slow. "There are constraints of hard currency and import restrictions," argues Shen, who expects only slight growth in two-way trade this year. More generally, he believes that the potential of the Chinese market should be seen not in terms of its geographical size and population, but in terms of its purchasing power and market access.

While export diversification has made progress, there are more worrying trends in the pattern of imports. In particular, the continued increase in imports from Japan, combined with only modest growth in exports, has prompted a sharp increase in the bilateral trade imbalance.

Taiwan's trade deficit with Japan has climbed from \$3.7bn in 1986 to \$6.9bn last year and is forecast to reach about \$8bn this year. "This is a cause of great concern to us," says Chiang. He advocates a policy of import substitution, through direct investment by Japanese component manufacturers rather than through trade restrictions, as a means of resolving the problem.

Part of the difficulty is that Taiwan carries relatively little debt in bilateral trade negotiations. "We asked Japan to abolish quotas on leather goods for six years without success," says Chiang. "But the US got them to drop them in just one year."

Political considerations of a different nature are obstructing another of Taiwan's trade objectives - membership of GATT.

Taiwan submitted its application to join the trade organisation at the beginning of the year, but the reluctance of most countries to risk offending China, which is seeking GATT membership before Taiwan, means that the world's thirteenth largest trading nation will continue to be excluded from the most important forum for international trade issues.

In spite of these difficulties it is misleading to see textiles as a Taiwanese sunset industry. As with other labour intensive sectors, the current slowdown is more a reflection of a period of adjustment as manufacturers upgrade plant and equipment to cope with the new economic environment.

"We are in a very important transition stage," argues Mr Douglas Hsu, president of Far Eastern Textiles, Taiwan's largest textiles group. He compares the situation to that which faced Italy in the 1970s: "They had all the problems we are now facing, and they emerged much stronger from their restructuring."

Among the more important adjustments facing Taiwan's companies are the automation of production and other measures to promote productivity gains, a move towards higher quality, higher value added

## TEXTILES

## Competition, protection and readjustment

"A TEXTILE depression" is the verdict of Mr Philip Chen, secretary general of the Taiwan Textile Federation, on the performance of the sector.

There is some justification for his gloom. Exports have fallen in value from NT\$301.48bn in 1987 to NT\$272.27bn in 1989 and their share of overall exports has fallen from 20.4 per cent in 1986 to 15.6 per cent last year. Employment has also declined, from nearly 200,000 in 1985 to less than 170,000 today.

There is no lack of explanations for the decline, and many of the factors reflect the general problems facing Taiwan's traditional labour intensive industries as the economy matures.

The Taiwanese currency has appreciated by over 40 per cent since 1986, when the US applied pressure on Taiwan to correct the ballooning trade imbalance between the two countries.

The currencies of South Korea and Hong Kong, Taiwan's principal rivals in the textiles industry, have risen by much less, and although the NT dollar has weakened by

production, development of independent brand names and diversification of products and markets.

Some progress is being made. Far Eastern Textiles has cut labour costs to 15 per cent of total manufacturing costs through a programme of staff reductions and automation and is diversifying production into

## The industry has suffered from labour shortages and rising costs

hi-tech plastic products. Similar efficiency gains have also been achieved by the other large textiles producers.

Progress is also being made in the diversification of markets. Whereas the US accounted for 38.6 per cent of total exports in 1985, it now accounts for about 28 per cent. By contrast, exports to Hong Kong and other non-restricted markets have grown both in value and as a proportion of the total. According to industry analysts, however, there has been less improvement in research and development. Out of a total of NT\$26.1bn spent on R&D in 1988, only 0.65 per cent was accounted for by the textiles sector. In 1990, only 0.29 per cent of the government's NT\$6.6bn R&D budget will go to textiles.

The necessary adjustments are still more difficult for the large number of small companies which characterise the industry and for companies mainly involved in downstream activities.

Manufacturers of apparel and small spinning companies, for example, have been more adversely affected by the deteriorating export environment than producers of fibres. "The regional price war has seen a drastic reduction," says Hsu. "Independent small weavers are definitely out."

The more difficult environment facing apparel producers reflects both the relatively labour intensive nature of production and the predominance of small companies which lack the capital to invest in new machinery and to automate production.

Their response has often been to relocate to cheaper production bases in South East Asia and China. Taiwanese textiles producers are now a common sight in Malaysia, Indonesia and Thailand as they take advantage of cheaper labour and export quotas permitted by principal markets such as the US.

For these countries, like Taiwan in previous decades, textiles will provide an engine of growth. For Taiwan itself, this is likely to mean a further shrinkage in the sector as it loses its traditional comparative advantages. But, as Hsu argues: "Any company can succeed if it adapts to the changing environment. Even smaller companies can find and exploit their own speciality niches."

## Smaller companies lack the capital required to invest in new machinery

John Ridding

While some Taiwanese companies may have lost their way on the international take-over trail, others have clear aims to establish global

businesses in their own industries. John Elliott profiles two - President Foods and computer manufacturer Acer Incorporated

## President has global ambitions

## Food for thought

"WE ARE not like some other Taiwanese companies which have a lot of money to spend, but do not know where to spend it," says Chen Chin-Shin, manager of the planning division at President Enterprises, Taiwan's largest processed food group.

"Our company wants growth internationally to become a global and diversified food company."

Four months ago President surprised the world's food industry when it beat 15 other international companies with a US\$350m bid to acquire Wyndham Foods. The Georgia-based company is the third biggest biscuit manufacturer in the US after Nabisco and Keebler.

It has set up a subsidiary, President International Trade and Investment Corporation (PITIC) which is registered in the tax haven of the British Virgin Islands, to hold its 100 per cent ownership of Wyndham and to carry out other foreign acquisitions, joint ventures and investments.

President owns 65 per cent of PITIC, the other 35 per cent being held by associates and banks.

President's sales totalled US\$1.1bn when the company's joint ventures and subsidiaries (which include 530 stores under the 7-Eleven name in Taiwan) are added to its own figure last year of US\$600m, 90

per cent of which was in Taiwan.

Chen says the aim is to build another US\$1bn annual turnover abroad within five years, including Wyndham's current US\$300m.

The rest is to be achieved by expansion of President, integration of the two companies' products, plus other ventures in food manufacturing, retailing and distribution in the US and Asia.

The company is currently negotiating various joint ventures and is also talking about buying some 7-Eleven store chains outside Taiwan.

It allowed to do so, it would also like to invest in China, where it has even been invited to rear chickens for its Taiwan Kentucky Fried Chicken shops.

President's interests range from edible oils and flour to pickles and frozen foods.

Founded in 1967 in the Taiwanese city of Tainan, it is part of a group called Tainan which also includes Tainan Spinning and Universal Cement among its interests.

Last year an allied company, President Securities, acting with other investors, bought 30 per cent of the Taiwanese subsidiary of Wang Laboratories, the US computer manufacturer.

President started its search for an international role five years ago, when it discussed the company's long-term growth plans.

cent of its stock to General Foods of the US.

President would have benefited by distributing products through General Foods, which in turn would have gained Chinese food technology.

That sounded like a perfect match, says Chen, even though there was some opposition because "Chinese shareholders do not like to sell their companies". But the deal fell through when Philip Morris took over General Foods. President, with hindsight, is more than pleased.

Since then there have been nearly 20 joint ventures and distribution arrangements with Japanese, West German and other food companies.

But President decided it needed to internationalise on its own, and-once considered bidding for the Nabisco food group.

"The attraction of Wyndham, which controls eight regional biscuit makers, is that it provides an opportunity for President to expand globally with product integration."

Wyndham was on the market because one of its main shareholders, Mason Best, needed to sell to cover property losses.

President's US\$350m was not the highest bid, but Wyndham considered it the most attractive because of the Taiwanese company's long-term growth plans.

## Acer has slowed its overseas plans

## Expansionist adjusts

ACER INCORPORATED, one of Taiwan's most internationally expansionist companies, is slowing down its overseas plans while it digests recent acquisitions and adjusts to both domestic and world economic problems.

But the company, which is Taiwan's leading personal computer manufacturer, says it hopes to be back on its expansionist trail by late next year, with either a company acquisition or a large new factory in Europe - probably to be sited in the UK, Germany or Spain - costing between US\$30m and US\$50m.

This reflects a continuing need for overseas growth by high technology Taiwanese companies as they seek to establish themselves in the big markets of the US and Europe.

Formerly called Multitech, Acer was founded in 1976 by Stan Shih, its chairman, and went public in 1986.

It hit the headlines three months ago when it paid US\$90m for Altek Computer, a Silicon Valley computer systems manufacturer, which it hopes will quickly correct poor sales in the US and improve marketing in Europe.

The Altek take-over followed a spate of smaller acquisitions over two years in the US and Europe which were aimed at gradually improving Acer's international sales and service operations.

Domestically there has been a 74 per cent stake in a US\$300m joint venture with Texas Instruments to manufacture dynamic random access memory (DRAM) chips, plus NT\$1.5bn expenditure on land for new headquarters outside Taipei.

A US\$20m manufacturing



Acer chairman Stan Shih

plant has also just opened in Malaysia.

"It's time to digest and to integrate all our investment efforts, which have been too aggressive and expensive because growth rates have not met our expectations," says Shih.

"Profit margins are too low - they were almost zero last year - so we must be more conservative."

He expects last year's pre-tax earnings of US\$6.4m on total revenue of US\$689m (down from US\$7.8m on US\$631m in 1988) to improve to only about US\$15m this year on US\$900m turnover.

"In the past two years we have expanded too quickly and the personal computer industry is not so strong as before," says Philip Peng, Acer's vice president for corporate finance.

"Last year we easily raised NT\$4.6m in the buoyant Taipei capital market. This year it is difficult to raise money in Taiwan or, after the Gulf crisis, internationally."

Sales last year were split roughly equally between the US, Europe and the rest of the world, including Taiwan which accounted for about 12-15 per cent.

But Peng estimates the US share will fall to 20-25 per cent this year because of problems Acer experienced selling through general dealers before it bought Altek.

The target at Altek, which made a US\$1.5m profit in 1988, was to produce between US\$3m and US\$5m profits in the first year of Acer's ownership.

Economies have been made by combining the two companies' component purchasing and cutting some duplication of research and development efforts.

Unlike many Taiwanese companies, Acer has diversified from original equipment manufacturing (OEM) for sale under other companies' labels to own-name brands of equipment. At present, 45 per cent of production is OEM and 55 per cent Acer's label.

Shih says he prefers to keep a substantial OEM business to help maintain volume production and to enable him to reap the benefit of other companies' marketing skills, which he acknowledges is not an Acer strength.

Shih's ambition is to create a "truly global company" and that requires a substantial personal computer manufacturing centre in Europe before 1992 - which Acer has been considering for some time.

Whether that comes about depends on prospects in the world personal computer markets and on economic and financial prospects internationally and in Taiwan.

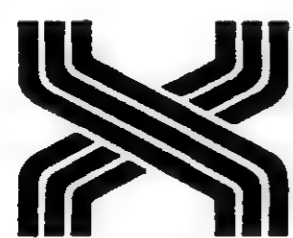
## TOP TEN EXPORT ITEMS

Item	1989 export value US\$bn	% of total exports
Machinery, electrical equipment	21.53	33
Textiles	10.33	16.5
Basic metals and articles	5.18	7.2
Footwear, headgear, umbrellas	4.47	6.8
Plastic and rubber, plastic and rubber articles	4.33	6.2
Toys, games, sports items	3.03	4.8
Vehicles, aircraft, other transport equipment	3.01	4.8
Animals and animal products	1.79	2.7
Precision instruments, clocks, watches	1.68	2.5
Leather and fur products	1.49	2.3

Sources for both tables: Board of Foreign Trade, Ministry of Economic Affairs

## EXPORT MARKETS

Country	% of total exports
US	38.2
Southeast Asia	18.9
Europe	18.5
Japan	13.7
Central America	2.8
Middle East	2.5
Africa	1.9
Latin America	1.8



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## TAIWAN 5

INVESTMENT OVERSEAS: Peter Wickenden

## Industry looks abroad

IT IS not uncommon to see trucks loaded with an oily assortment of used machinery heading in the general direction of the coast. Although many of the small factories they come from have seen their heyday, these machines are not scrap. The destination in most cases is the Chinese mainland and the other relatively low-wage countries around Asia into which Taiwan is pouring manufacturing investment.

Individually, these are mostly small-scale, low technology, labour-intensive projects. But so far they have featured more prominently in Taiwan's outward investment than the more glamorous large buyouts of hi-tech companies that have begun to occur in advanced economies.

According to the economic ministry's Investment Commission, approved offshore investments by 180 Taiwanese companies totalled a record \$933m in the first seven months of this year, a 281 per cent increase on the same period last year. Officials believe that the actual total may be seven to ten times that.

A breakdown of the figures showed the US to be the most popular target, with 61 projects worth \$261m, followed by the Philippines with 15 projects totalling \$122m. Malaysia, Thailand, Indonesia and Hong Kong (which probably means mainland China) also came high on the list.

Taiwanese industry has been spreading its wings abroad since the 1950s, but only since 1988 has there been a rapid increase. For small labour-intensive companies struggling to survive the move offshore

has been both a way of beating protectionist quotas and of buying time. The government favours investment in low-wage areas so long as the companies "leave their roots" in Taiwan and use the breathing space and profits to upgrade production at home.

The vice economics minister P.L. Chiang says he suspects that most of the 1,000 companies that have moved to China are short-term opportunists who will pack up when wages begin to rise there. The mini-

## Industry has been spreading abroad since the 1950s

try has therefore proposed that indirect investment in China only be allowed for low-tech products in which Taiwan has already lost competitiveness.

According to Taipei's main economic think tank, the Chungghwa Institution for Economic Research, Taiwan companies have already invested \$1.2bn in the Chinese mainland. For strategic and political reasons Taipei would rather see the current "mainland fever" among Taiwanese businessmen cool off and more investment flow to other Asian countries. In the absence of formal diplomatic ties, the payoff is greater substantive recognition for Taipei and thus points scored in the battle for regional influence between China's political clout and Taiwan's piles of cash.

While investment in developing economies may help Taiwan companies preserve market share and cut costs, they do not yield the greater

management expertise or technology needed for long-term growth. Larger and more forward-looking companies in the electronics, consumer goods, processed food and service industries are at the same time making strides in the US.

The last two years have seen three major US acquisitions by Acer, the island's largest personal computer maker (see Page 4), the purchase of Wyse Technology by an investor group that included Taiwan government funds, and most recently the purchase of Wyndham Foods, a major biotech manufacturer, by President Enterprises (Page 4).

Merger and acquisition specialists say cash-rich Taiwanese companies have made unsuccessful bids for many more, often citing US concerns. The analysts make a distinction between Taiwanese companies that want to become global by expanding vertically and transferring technology and management back home, and those with more ambitious but less focused plans.

Examples of the latter may include Tuntex, a large construction and textiles group which has jumped into banking by buying up eight troubled savings and loans institutions in Texas. The company also announced earlier this year a plan to spend \$300m buying six US hotels that would form part of an international chain, and no less than \$100m on a massive real estate project in San Francisco.

Securities analysts say Tuntex has over-extended itself and has been scaling its ideas down after the Taiwan stock market's big fall.

Meanwhile China Boher, a steel and construction group with no previous experience in the financial sector, acquired Omni bank in California, and intends to integrate it with a bank that it hopes to start in Taiwan next year. Local experts say that a better way for Taiwanese companies to gain financial expertise would be to take a stake in a successful foreign bank rather than make an outright acquisition of a small and shaky one. But they concede that it is not in the nature of the Chinese to share control.

Due to Taiwan's long trade, educational and political ties to the US, its industry has been reluctant to move into Europe. An endless stream of delegations from EC states give seminars in Taipei in an effort to attract manufacturing and distribution investments. They point out that the EC now accounts for more than a fifth of Taiwan's total trade, and that the single European market is close.

According to official figures, 250 Taiwanese companies have invested \$1.1bn in the US since 1989, 375 companies have put \$760m into Asia, while 52 companies have invested \$283m in Europe. Although these figures are seriously understated, the proportions are good indicators. So far, only Tuntex, an electrical appliance manufacturer, has made a significant manufacturing investment in Europe. But other companies are showing interest.

Semi-official representatives of European countries based in Taipei say hopefully that they expect to see a last-minute surge of Taiwanese investment in their countries.

FINANCE: John Ridding

## Primed for expansion

TAIWAN'S FINANCIAL sector has long been the poor relation of the real economy. While Taiwanese industrialists and exporters have expanded domestic manufacturing bases and moved with such impact into overseas markets, the country's financial institutions have lagged behind both in terms of sophistication and internationalisation.

But change, albeit gradual, is now underway. From the stock market to the banking sector the government is implementing a policy of liberalisation and reforms aimed at creating more powerful and efficient financial institutions.

"We would like to be one of the financial centres of Asia," says Wang Chien-shien, the finance minister, "so we have to liberalise our markets."

As a result, and after several false dawns, the government is set to allow foreign investment in the stock market.

Plans submitted to the cabinet for final approval - expected by the year end - will allow up to \$2.5bn to be invested in local companies. Each institution will be allowed to invest between \$5m and \$50m and foreign ownership will be limited to 10 per cent of the equity of any local company.

At the same time, the government is taking steps to increase competition in the domestic banking sector. Minority stakes in the three commercial banks - Chang Hwa, First Commercial and Hua Nan, which dominate the industry with combined deposits equivalent to about 40 per cent of the island's total - are to be privatised and regulations are to be eased.

The planned flotation was hastily postponed because of the recent sharp falls in the stock market, but will go ahead once the bourse recovers.

More significantly, the government is to issue licences for new commercial banks. Applications are to be submitted by the middle of October and the government is aiming to decide the successful applicants by April next year.

The requirements attached to the new licences suggest that the new entrants are going to be formidable players. Minimum paid in capital has

been set at NT\$100m each, at least 20 per cent of which will be open to the public through share subscriptions. Given the stringent requirements, even a small number of new banks are likely to have a substantial impact on the traditionally protected sector.

C.S. Lo, chairman of Chang Hwa Commercial Bank, says he supports the introduction of new banks and welcomes the challenge. But he expresses concern about the impact of increased competition while commercial banks remain in the public sector. "Under the present regulations we cannot develop our business with a free hand," he says, citing government control over the number of staff, budgets and remuneration levels for bank employees.

"Some of our well-trained employees will be scooped by the new banks," he complains.

New services are being introduced to prevent erosion of the bank's NT\$450m of deposits, says Lo. These include the first 24-hour automatic cash dispensers in Taiwan.

Similar concerns are expressed by Liang Kuo-shan, chairman of the Bank of Communications, who argues that the three large commercial banks should be privatised before new licences are awarded.

Problems of restrictions and the increase in competition are also concerns for the 37 foreign

## Licences for new commercial banks are to be issued

banks operating in Taiwan. "The most stringent restriction is the difficulty in obtaining local currency funding," says Pierre Cardonne, general manager of Banque Paribas in Taipei. "There is no bond market, so we have to rely on deposit taking which is limited by the size of the branch's capital."

Other restrictions include the number of branches. Citibank, for example, pursuing a strategy of expanding retail banking services, is limited to just two outlets.

The consensus among foreign banks is that Taiwan has become more difficult and will



Wang Chien-shien

become still tougher over the next few years.

"Margins are tighter than they were in 1987 and 1988," says one, "and the introduction of new banks will make them tighter still."

The foreign banks are also suffering because of the slowdown of the Taiwanese economy. Much of their business has traditionally been related to exports, which have contracted this year, while the near collapse of the local stock market and more difficult business conditions have increased the number of bad loans and the risk of default.

But the liberalisation of the domestic sector should also bring opportunities to foreign banks. Changes made earlier this year in the ministry of finance's banking guidelines have allowed wider activities in the securities and trust banking sector, while the ratio of deposits to capital has been increased from 12.5 times to 15 times. The planned opening of the securities to foreign institutional investors is also welcomed.

At the same time, the prospect of increased competition in corporate banking is prompting foreign banks to diversify their activities. "We hope that businesses such as mergers and acquisitions, pri-

vate banking and euromarket business will compensate for any loss in our present revenues," says Cardonne.

The prospect of a more difficult business environment has been a factor in a number of decisions to close or reduce the size of operations. Chemical Bank of the US is closing its branch office while Chase Manhattan is selling its credit card operation.

However, these moves are being offset by new arrivals. The most significant is the opening of a representative office by the Bank of Tokyo, which is overcoming diplomatic sensitivities between Japan and China to join Dai Ichi Kangyo, currently the only Japanese bank in Taiwan.

In a reverse move, Chang Hwa Bank, has opened a representative office in Tokyo, reflecting the growth in overseas operations of Taiwan's banks. "Taiwanese banks should be more active in supporting the overseas activities of manufacturing companies," argues Lo, who foresees a greater international expansion following the relaxation of the government's traditionally tight control.

Like the other steps towards financial liberalisation, greater international exposure will take time to develop. "The pace of liberalisation has been fairly slow," says one foreign banker, "but it is a complex issue and the authorities are

## International exposure will take time to develop

probably moving as fast as they can."

Wang expresses a similar sentiment. "We want to go as fast as we can," he says. "But we have to go step by step and we must be careful."

As a result, few believe Taiwan will represent an alternative regional financial centre by the time Hong Kong reverts to Chinese rule in 1997. "We need to see free capital flows and currency convertibility before Taiwan can develop as a regional centre," says E.M. Williams, country sector executive at Citibank. "In this respect Taiwan still has a way to go."

STOCK MARKET: John Ridding

## Curb on housewife's choice

THE TRADING room at Ting Kuo securities in downtown Taipei has been unusually quiet in recent weeks. Investors, stunned by the 70 per cent decline in the market index since February, watch the ranks of screens hoping for signs of a revival.

Even by its own volatile standards, the Taipei index has seen a remarkable year. From a high of 12,495 points on February 10, the market plummeted to a mere 3,135 on August 24. In between, the individual investors who dominate trading have engineered a series of maximum daily rises and falls. Reasons for the tailspin are numerous.

The liquidity boom fuelled by the economy's huge trade surplus between 1988 and 1989 has been dampened by overseas investment flows and a sharp contraction in domestic monetary policy. An estimated \$8bn of capital flowed overseas in the first half of the year, while the effects of increased bank reserve requirements have become clear since the beginning of this year.

Also, a government crackdown on underground investment houses, which used their financial power to manipulate the market, prompted a further flow of funds.

The economic news has also been gloomy. In Taiwan terms at least, GNP growth is forecast at a relatively slow 4.5 per cent while corporate pre-tax profits, excluding the financial sector, fell by an average 31 per cent in the first half of the year. But many analysts regard the market's decline as a necessary step with some beneficial effects.

"This is part of the maturing of the Taipei market," says an analyst at one of the largest domestic securities companies. "All markets go through an adolescence. In Taiwan this is particularly painful because it has been even more of a casino than most."

How much this year's decline will dampen the Taiwanese appetite for gambling is certainly open to question. But Taiwan's speculative tendencies will also have to contend with the determination of

## The Taipei index has seen a remarkable year

the authorities to create a more stable market.

In particular, Wang Chien-shien, the new finance minister, has a number of cards up his sleeve. Perhaps the most important is the opening of the market to foreign institutional investors, a move aimed at allowing an influx of relatively stable investments. Under proposals issued by Taiwan's securities and exchange commission, selected foreign institutions will from the start of next year be allowed to invest a combined \$2.5bn in Taiwan's equity and bond markets.

Foreign institutions will each be allowed to own up to 5 per cent of any one company and total foreign ownership of Taiwanese companies will be limited to 10 per cent of equity.

Such a move is generally welcomed. Local brokers and investors see an opportunity to resuscitate the market while

foreign investors have long expressed interest in gaining access to one of the world's most dynamic economies. "With the market currently in the doldrums, average price earnings ratios of less than 30 per cent, and good long-term prospects, the Taiwanese market is looking fairly cheap," says one analyst at a European securities company.

But a number of institutions have also expressed reservations about regulations included in the market-opening proposals drawn up by the Securities and Exchange Commission. In particular, they dislike the condition that they can remit profits only once a year and must keep their principal investment sums in Taiwan for 12 months. However, Wang has indicated that these requirements could still be made.

In any event, foreign institutional investment alone will not cure all the market's ills. The government has also been cracking down on underground investment houses which have used their enormous funds to manipulate the market, fueling huge swings from one day to the next. "The government has done a good job in defusing this problem," argues one local broker.

Other measures to remove the speculative steam from the Taipei bourse include the imposition of a 0.5 per cent transaction tax, a factor in the market's plunge but also a dampener on the rate of share turnover. The cabinet has also approved plans to allow up to 30 per cent of the state's NT\$400bn pension fund to be invested in the market and is

considering expanding the number of mutual trust funds.

All these steps reflect a broader need for a shift in the balance of trading power away from individual investors who hold about 50 per cent of shares and account for about 90 per cent of trading. The opening of the stock market to foreigners is itself a reflection of the weakness of domestic financial institutions which have been unable to offset the influence of private investors, including housewives.

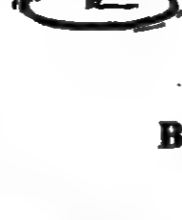
Instinct and rumour rather than corporate analysis play a larger role in these people's investment decisions. "I think they know the names of the companies they are investing in," says Samy Chen, President of W.I. Carr in Taiwan. The huge capital outflows of the first half have started to slow, the impact of tighter monetary policy has now largely been accommodated, while the crackdown on underground investment houses is nearing the end.

The Gulf crisis, with its implications for world economic growth and Taiwan's export-dependent economy, remains a big question mark but with the index already in the doldrums and with the prospect of foreign capital flowing in, the housewives at Ting Kuo securities are soon likely to be busy again.

## WHICH OF THE FOLLOWING IS RIDICULOUSLY TRUE?



A. Sumo is a form of ballet



B. Big Ben is in Paris



C. Taiwan is not in GATT



D. Kangaroos deliver mail in Australia

It's silly, but "C" is the answer. The world's 12th largest trader has been needlessly excluded from the General Agreement on Tariffs and Trade, or GATT.

And that's not all. The Republic of China on Taiwan also possesses one of the world's largest foreign exchange reserves (US\$70 billion), and has Asia's second highest per capita income (US\$8,000) and is the second largest foreign investor in Asia behind Japan.

The facts make it hard to believe Taiwan is not in GATT. But not for not trying. On January 1, 1990, Taiwan formally applied to

enter GATT as an independent customs territory, under the names of the territory it controls (the islands of Taiwan, Penghu, Kinmen and Matsu). That should have eliminated any political hassles, since Taipei's arch-rival, Peking, had insisted that Taiwan could not enter GATT as a nation-state.

Then Peking retrenched by asserting that Taiwan should not enter GATT until Peking qualifies, whenever that might be.

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**SAAB**

## MANAGEMENT

## Doing business in France

## Triomphe over adversity

Newcomers generally receive a warm official welcome but, as William Dawkins explains, they will probably encounter more difficulties than they bargained for



In the most economically depressed part of the region, the remote Vosges hills.

After some internal debate, UPM supported Rafiatat's preference for Pompey, where the regional aid is less generous but motorway connections are second to none. Otherwise, Rafiatat has been left to find his own way in France with minimum interference from company or national politics.

Yet getting established is only the start of the battle. "Once you are in, then your troubles start," says Time Niemi, manager of Rafiatat's Lyon plant. He and his colleagues have had very different experiences in finding staff. Like all the newcomers, they needed to look like a French company to their customers, which meant having a French sales force and junior management.

Niemi picked up the core of his 15-strong team from a local paper maker that had closed down. Lasseus, however, had no such luck for his rather larger operation, which now employs 22 and will need 180 staff by the time the factory is

finished next year. He used a local recruitment office, which found it hard to satisfy his simplest requirement that candidates speak English, the group's main language.

"They presented five or six candidates for one job who all claimed they were English speakers, but turned out not to be up to it. I could have used an international headhunter - but they are all based in Paris and cost a fortune," says Lasseus.

Neither did French managers like taking psychological tests, obligatory at Rafiatat. "We have a lot of democracy and freedom. For that you need a special type of person," says Lasseus.

Local suppliers also had to adjust to Rafiatat's management structure. They were used to dealing with the top man in typically hierarchical French companies, and found it hard - at first - to accept large orders from young managers in the decentralised French newcomer.

"They would not believe that our French units had the right to buy, say, FF7.5m worth of

machines, so they kept sending faxes to our head office in Finland," says Lasseus, who says colleagues at Stracel had the same experience.

Hummer also chose its French location for an unexpected reason. It set up, over the French side of the German border five years ago, not specifically to sell to France but to benefit from cheap French nuclear-generated electricity, low labour costs and cheap property prices in the former steel and coal producing region of Lorraine.

Edda Hummer, the owner and chairman, reckons her costs are on average 30 per cent less than they would be just 100km away in Germany, yet she sells 70 per cent of output. Around 15 German companies near her have done the same and cleverly played on the differences of costs just over the frontier.

Hummer's only gripe are the fact that customs costs plus the need to have an agent in Germany take up to 5 per cent of her turnover - a cost which in theory should be alleviated if the European single market really succeeds in removing her local frontier post. "We paid FF120,000 in customs fines in our first year because we could not understand the regulations. Since then, I am glad to say, we have received a bit more understanding from the local director of customs," she says.

Sofacap, the Spanish maker of PVC wine-bottle caps, crossed the border three years ago because it saw little room for growth beyond its 60 per cent share of its home market.

Chartered by the high failure rate of Spanish small business investments in France, Sofacap prudently recruited a Frenchman to head the project. Jansen, a former McKinsey consultant, was then running the Barcelona office of Datar, the French regional aid agency.

Having invested FF1.1m in its new plant, Sofacap is only just starting to break even. "We have lost FF7.5m over the past three years. But it's the entry ticket that we have to buy," says Jansen, who reckons he now has 15 per cent of the French bottle-top market.

On top of this, it took far longer than expected to acquire customers. Jansen personally visited at least 600 prospective clients in his first two years - mainly small wine merchants - and by 1988 two thirds of his turnover was still coming from just one customer, the Inter-marché supermarket chain. "They must get to know you. What made it harder was that because prices were falling, they were only prepared to buy in small lots," he recalls.

"I underestimated the differences in the quality of the product required and in the amount of competition. Even if it is only 200km away from Barcelona, it's a completely different market," says Jansen.

Beyond the shock of adjusting to the French market's special qualities, several businesses mentioned specific problems to do with banking, regulation and legal affairs. Red tape was onerous, though none of them found it a decisive burden because they all hired advisers to handle administration. Hummer jokes: "I would say France has many more regulations than Germany, but they are not so heavily enforced here."

Even with a French adviser in the background, Euro Cellular ran into a potentially expensive legal problem when it fired a salesman, only to find that he had the right under French law to claim for loss of potential earnings and to take his clients with him.

Rafiatat, meanwhile, was disappointed to find that banks did not pay interest on international fund transfers held overnight, a service quite normal in Finland. It was also surprised by the complex matrix of social charges and local taxes - "the most complicated payroll I have ever seen," says Rafiatat's data processing manager.

In general, these teething problems have done nothing to weaken the newcomers' convictions of the importance of the French markets. Euro Cellular plans to open four more stores in the next 18 months - this time as franchisees; Sofacap is about to raise venture capital to fund its expansion, while Hummer believes it can double its sales in the next few years.

The main lesson probably applies to foreign investors anywhere. New players in France will probably need more time, patience and cash than they first think. Says Kerstein: "Anybody coming here with a short-term view is in for a shock."

## Return to a double-headed power base

Christopher Lorenz on Hewlett-Packard's eleventh reorganisation since 1980

While most of America was out celebrating Columbus Day on Monday, many of Hewlett-Packard's managers were pondering over the implications of a major reorganisation of the computer and instruments multinational which was announced on the eve of the holiday weekend.

On the surface, the three-faced reorganisation seemed straightforward. First, the computer business is being reassembled into two new units, divided mainly on the basis of sales channels instead of product similarities as before.

One unit will now comprise workstations, mini-computers and networking products, which are sold through HP's own sales force. The other will include personal computers, laser printers and other peripherals, which will in future mainly be sold through dealers or as "original equipment" to other manufacturers.

Second, a level of management immediately above the computer business has been removed, with its head moving into a joint "chief executive office" with HP's chairman, John Young. HP has thereby re-established in formal terms its founders' tradition of operating under double-headed leadership.

Third, responsibility for computer sales is being transferred from a separate marketing organisation to the two new business units; this represents a sharp shift in HP's matrix organisation from its geographic side (national and regional subsidiaries) to the business units.

HP managers ought to be used to reorganisations by now - since 1980 the company has now "evolved" as an insider puts it, 11 times. But they were right to ponder. For, as with IBM and ICI's confusing recent corporate reorganisations (this page, September 14), there is much more to this one than meets the eye.

For one thing, HP revealed on Monday that the long-standing senior manager who on Friday appeared to have been elbowed out of line management into a "special assignment" actually left at the weekend to head a small company. HP holds a stake in it;

but his departure was a shock.

More significant are three other aspects of the reorganisation, none immediately obvious. First, the new structure partly answers persistent allegations among Silicon Valley observers of inadequate cross-functional and other co-ordination within HP's computer business. It gives the two new computer heads, with their separate organisations, almost as much power as a controversial executive who had complete charge of HP's computer business for a brief period between 1982 and 1984, before being pushed sideways because he had ruffled too many feathers. He eventually resigned.

Second, it establishes several youngish executives (aged between 47 and 53) in competition for succession to John Young and his colleagues in the chief executive office (both are around 58, and are expected to retire by their early 60s).

Third, it takes a very different route from that of IBM towards the universal corporate goal these days of delaying, cutting costs, speeding decision-making, and altogether getting "closer to the customer". IBM responded in July to the computer industry's current woes - stagnant sales and soaring competition - by putting increased emphasis in its European marketing activities on the geographic side of its matrix.

Faced with much the same set of problems, HP has done the opposite, transferring direct line responsibility for sales from its national and regional subsidiaries (under the aegis of central marketing) to its business units.

This apparent contradiction between IBM and HP is explained by the very different organisational directions from which they have come to confront these problems: IBM from a centralised tradition, HP from a highly decentralised one. To inject new energy and creative tension into their organisations, the two companies need to take apparently opposing steps.

As with the contrast between the restructuring of IBM and ICI, it all goes to show that there is no single formula to suit different companies facing the same challenges.

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## TECHNOLOGY

## Cassettes still keep the beat

THE PROBLEM with technological advances in the recording industry is that they make lovingly-assembled collections of music redundant.

Purchasers of compact disc players have to decide what to do with their shelves full of vinyl. People who have accumulated dozens of cassette tapes over the years have to start all over again when they buy digital audio tape (DAT) players.

This week, Philips, the Dutch electronics group, said it had an answer to the problem, at least as far as cassette tapes are concerned.

It announced that it is developing a tape player which will be able to handle both digital tapes and conventional cassettes. The digital tapes will have sound quality equivalent to that of compact disc.

Philips said that the Digital Compact Cassette (DCC) will be available from the beginning of 1992. Based on a new, unspecified, coding technique, the DCC players will be designed for home, portable and in-car use.

Philips said that as well as playing pre-recorded digital cassettes and standard analogue tapes, DCC owners will be able to record on to digital quality cassettes.

Previous advances in recording technology, such as DAT, have raised the ire of the music industry, which fears it will lose royalties through piracy.

Philips said, however, that the DCC recorders would contain a device to protect the rights of the music companies. DAT recorders allow users to make one copy of a CD, but prevent them from transferring recordings from one tape to another.

Philips said that several major music companies were participating in the development of DCC. They include Philips, EMI and Bertelsmann. Tandy of the US is also participating in the development of DCC.

Philips said it was also talking to Japanese electronics companies which would help with the development of the hardware.

Michael Skapinker



## PRIVATISATION

Britain's fragmented renewable energy industry, long noted for generating as much controversy as electricity, is once more moving up the political agenda.

Faced with the need to curb emissions of carbon dioxide, the main greenhouse gas, the Department of Energy is trying to shed its reputation for hostility to renewable electricity sources such as the wind and the sun. One of the few new targets in last month's white paper on the environment was for 1,000 megawatts of renewable capacity to be in place by the end of the century — a tenfold increase. If Scotland's hydro-electric plants are included.

But the government's recent renewables initiatives have been bitterly criticised by sceptics within the industry, who warn that electricity privatisation could bring further problems for the struggling sector. Colin Moynihan, the new energy minister, brushes off such doubts, insisting that he will champion the renewable sector: "In order to have a balanced energy programme, it is very important to place emphasis on renewables," he says.

Electricity privatisation has ushered in a new method of subsidising renewables. In future, they will be supported by a levy on all electricity users, known as the non-fossil fuel obligation. It will bridge the gap between the price of generating electricity from renewables and the price of conventional electricity, as reflected in the new electricity market or pool.

The first list of projects to be supported by the renewable levy was announced last week by the Office of Electricity Regulation, the industry's regulator. A total of 76 projects with a combined output of 102 MW have qualified for this first round of support. They range from tiny hydro projects with a capacity of just 0.04 MW to an established waste-burning scheme in north London with a capacity of about 27 MW.

New projects which would

David Thomas on the viability of alternative sources of electricity

## A renewed source of scepticism

have been unviable without the levy account for more than two thirds of the total capacity. Dotted among them are a new breed of entrepreneurs who are beginning to view renewable energy as a chance to make money, as much as an ecological worthy pursuit.

Cheshire-based Land Fill Gas Limited, for example, managed to secure levy support for eight projects for generating electricity out of gas from waste dump sites. Bill Lee, the company's chairman, predicts that the levy will help to foster "designer waste disposal sites, specifically intended to harness all gas produced, so that higher levels of efficiency and lower levels of costs can be achieved."

## Projects supported by the renewables price levy

	No	Capacity (MW)
Hydro	26	11
Landfill and biogas	33	36
Waste burning	7	46
Wind	9	7

Source: Office of Electricity Regulation

And yet the process of agreeing the first batch of schemes has left an astonishing residue of bitterness in much of the industry. The most general complaint is about the disproportionately small scale: their combined output of 102 MW is, after all, less than that from a small coal-fired station.

Jim Halliday, chairman of the British Wind Energy Association, describes the less than 30 MW of wind energy supported by the levy as "embarrassingly small". He compares it with the 525 MW of wind stations already built by Denmark and the 500 MW planned by the Netherlands for the middle of the decade.

The association is particu-

larly critical of the eight-year time limit set on the renewable levy by the government after discussions with the European Commission. "The 1986 cut-off will become more and more crippling for wind energy and the other renewables as the period for repayment of capital becomes ever shorter," it says.

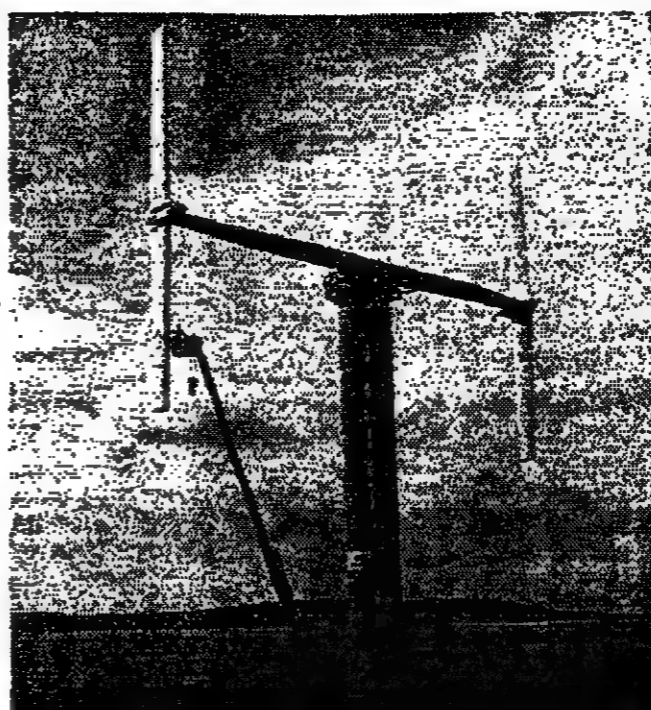
More specific complaints are directed at the way the authorities assessed the first batch of renewable projects. "The whole thing was a put-up job. It was a total farce," says Rupert Armstrong Evans, who runs a Cornwall-based hydro-electric business.

Armstrong Evans had drafted contracts with South Western Electricity, his local electricity company, for six small hydro schemes. But he says that four were deleted in the last few weeks at the insistence of the Office of Electricity Regulation. In a complaint echoed by many small electricity producers, Armstrong Evans complains of a lack of information about the criteria used to assess renewable projects.

In the Department of Energy's version, the sequence of events ran broadly as follows. "The government had received details of 570 projects by last autumn, when the first call for proposals was made, although some of these were alternative proposals for the same site."

Two developments served to weed out some of these projects in the early part of this year. First, it was indicated that eligible projects would have to produce electricity at a long-run average cost of not much more than 6p a unit (kilowatt/hour) — compared with 4p-4.5p from a new coal-fired station. Second, at Brussels's insistence, the levy was to be phased out after eight years.

These conditions scared off



Europe's largest wind turbine, in Carmarthen Bay, Wales

some projects. Eventually, some 100 projects were selected in April by the regional electricity companies, which scrutinised them on technical and financial grounds. Draft contracts were signed late this summer by the regional companies with about 100 projects.

Those 100 projects were forwarded to the Office of Electricity Regulation which screened them for technical, financial and environmental acceptability. The regulator then gave his blessing to the final 76 last week.

This cumbersome procedure seems almost tailor-made to fuel deep-rooted suspicions among many small producers that they are viewed as an embarrassing irrelevance by the authorities. "I'm sure they've been told to knock out as many small producers as possible because of the inconvenience," claims Armstrong Evans.

The government's apparent unwillingness to announce clear guidelines for the levy seems also to have set the industry's rumour mill working overtime. For example, many small electricity producers treated the 6p a unit target as an absolute cut-off point.

The Energy Department now says this was a misunderstanding: some projects supported by the levy are generating electricity at more than 6p a unit. No doubt some allowance ought to be made for the fact that the Energy Department

and the industry's regulator were operating a new system at tight deadlines. The department has announced that a second tranche of renewable projects will be supported by the levy next year, coupled with a special levy at a higher rate for wind generation. Lessons learnt this time should allow it to be more smoothly and openly administered.

The government is also planning a full-scale review of renewables designed to establish how they will meet the new 1,000 MW target by the end of the century. Moynihan seems inclined to launch regular tranches of support for renewables using the existing levy up to 1998. And he is open to the suggestion that the government may need to seek European Commission support for extending the levy.

The review will also consider the further implications of electricity privatisation for renewables, since once privatised the regional electricity companies may become even less inclined to spend valuable management time evaluating other tiny projects.

Moynihan is optimistic that renewables could provide 34 per cent of Britain's energy by the year 2025 (large undeveloped projects like the Mersey Barrage would account for much of that). It remains to be seen how the government's new-found enthusiasm will be translated into tangible results in the shorter term.

## IBM loosens its proprietary grip

The world's foremost proprietary computer manufacturer, International Business Machines, will today yield another inch to those companies which want to see common personal computers standards adopted throughout the industry. A consortium of manufacturers are joining IBM to help promote an IBM personal computer standard that is proving slow to take off.

The move towards a common standard has become so strong that IBM is encountering difficulty in persuading big corporate and governmental customers to accept its PS/2 personal computers equipped with Micro Channel Architecture (MCA), according to sources close to the company. MCA, launched three and a half years ago, broke with the previous personal computer standard for internal connections, known as the AT bus standard.

With the debut of MCA IBM made much of its intentions to enforce vigorously its intellectual property rights. By doing so it may have scared off early "clone" attempts. Market research reveals the 94 per cent of the MCA-equipped PCs sold are IBM's own.

"Over 375,000 MCA PCs were sold in Europe last year and 365,000 were IBM's." It is not a PC market, it is an IBM market," said Giulio Malet, PC strategy director of Olivetti Systems and Networks.

Pressure from its customers has convinced IBM that additional action is necessary on its part to encourage companies to invest in MCA. Without credible second source suppliers, MCA would be branded as proprietary.

"The announcement legitimises MCA as another open architecture in the market. Looking down the road, it allows MCA to become the one standard for 1988 and beyond. For the first time it enables any computer manufacturer to go out and build a PS/2 compatible machine without any hindrance," said Peter Horne, managing director of Apricot.

Today's announcement of a consortium, called the Micro Channel Developers Association (MCDA), will be made in New York by Robert Carberry, a technical vice president of IBM, and representatives of 14 other PC makers including

Apricot, Olivetti, NCR and Siemens.

"NCR shares a conviction that the Micro Channel Architecture should be the platform of choice for system developers," says Jim Van Tassel, an NCR vice president.

The consortium will strive to make relevant specifications available to its members to ensure that all MCA-equipped PCs are truly compatible with the IBM standard.

MCDA's establishment justifies the concerns of those who have invested considerable research and development in copying the functions of MCA. They claim that without a common standard IBM was free to "move the goal posts" to maintain a competitive advantage over other PC suppliers.

"MCA development was more difficult because it wasn't an open standard at the time but nevertheless we put in the resources and went ahead and developed it," said Richard Stone, PC Marketing manager of Olivetti Systems and Networks in the UK.

"The short term MCDA is not likely to impact on our parallel product development line. It remains to be seen what its effect will be in the longer term," he adds. Olivetti adds that MCA and the enhanced industry standard architecture (EISA), spearheaded by Compaq.

"What is going to make the difference in the longer term is how open IBM is prepared to come with MCA and how much input we have in the evolution of MCA. The same comments apply to EISA. At the end of the day, the market will decide the standard," says Stone.

The formation of MCDA is widely interpreted to counter the EISA "Gang of Nine" which is also struggling to establish its own 32-bit enhancement of the original AT standard.

EISA was formed by computer manufacturers who objected to the proprietary nature of IBM's MCA designs. At the time that EISA was formed it was held by Compaq that MCA would never become a standard and that a new, more powerful standard based on the AT bus was required by customers dependent on high-performance PCs.

Paul Lavin

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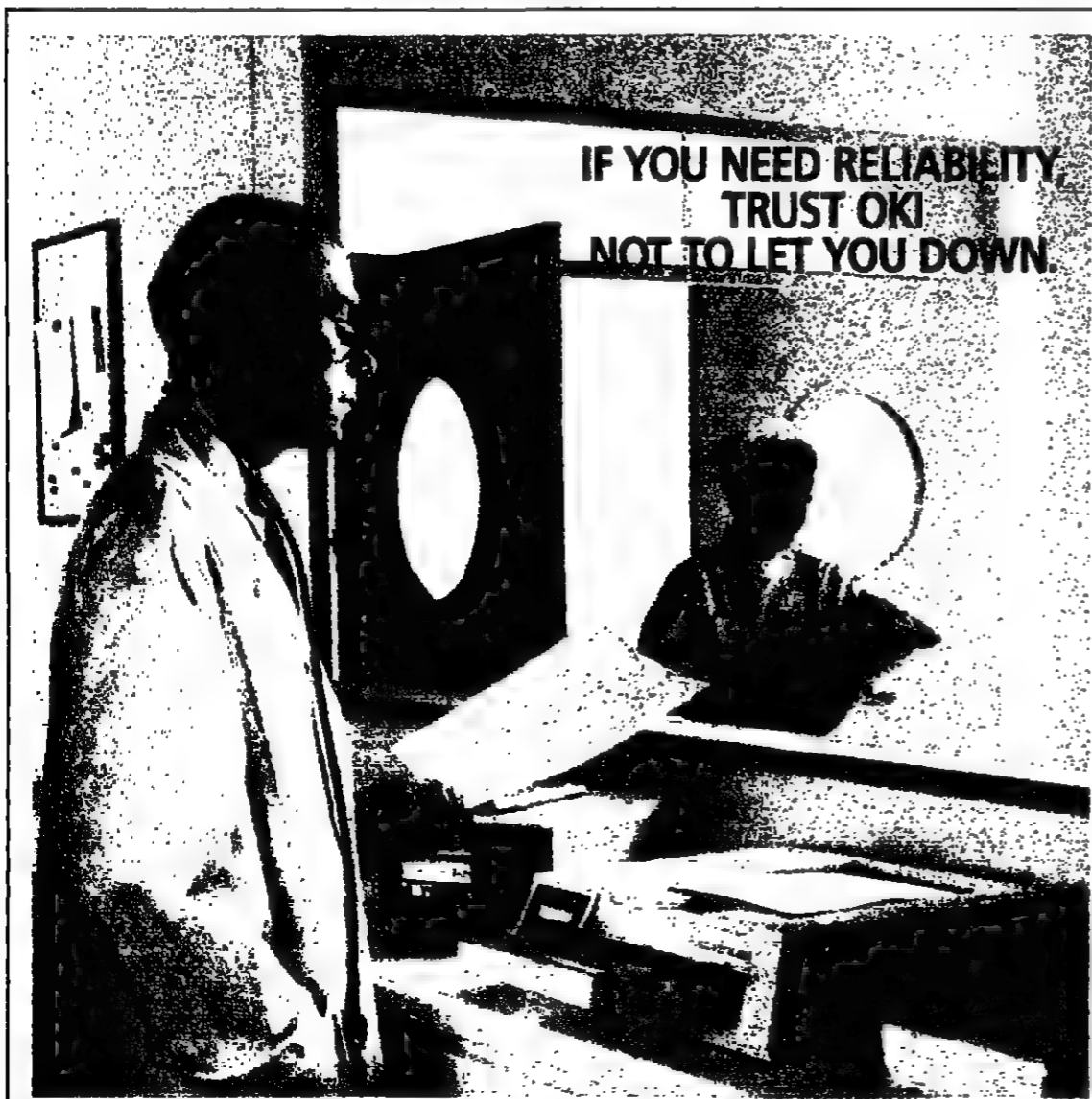
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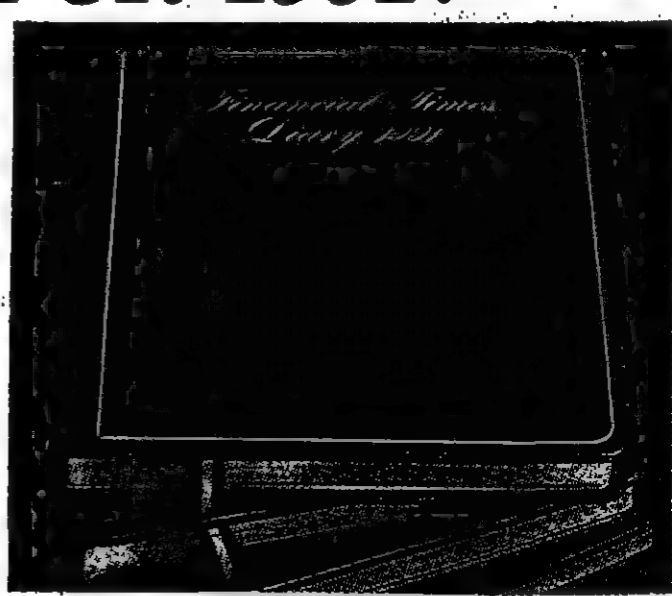
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## ARTS

## Martha Graham

LYON BIENNALE DE LA DANSE

At 96, Martha Graham remains the most famous name in modern dance, and she is still choreographing. But what price longevity? You don't need to hang around the dance world for long to hear of the decline of both her creative energy and her old repertoire.

And you don't need to have watched her company for many years, to see that the talk is justified. As with the actress Bette Davis (who, by the way, once studied with and worshipped Graham), the more recent the work, the less audacious and original.

Because the Graham company has returned to Britain since 1979, and because it still keeps reviving important older works, I took the chance to see a programme of five works it was presenting at the Lyon Biennale de la Danse. Perhaps it was not to be expected that Graham's late-1940s choreography would seem remarkable as psychology any more, but I was dismayed to observe how two once great works, *Dissection of Angels* and *Errand into the Pines*, have become distorted.

Where I looked for sculptural tension, I found voluptuous exercises in Graham technique. The new luxuriance turns Graham psycho-drama into playacting. *Dissection of Angels* is a masochistic, and *Errand into the Pines* is a half-sad, half-behaviour.

The two great events of the Lyon programme, however, were from the late 1930s. It's always surprising to see just how Graham's creative greatness was bound up with her high summer as dancer. These dances are distinguished by the quality of her energy, so clearly connected to spiritual forces.

*Deep Song* (1937) is a solo, powerfully danced now by Joyce Herzing, that abstracts the suffering of Spanish women during the Civil War. She dances on, beside, under, a bench; it is her sad, cutting, brown. From her, an expected together from the gut with singular momentum. The woman's spirit is indelible.

*Steps in the Street*, made for a large group of women, is a suite of three dances - *Devastation*, *Without Family*, *Exile* - from *Chronicle* (1936). These pictures of the American Thirties still thrill. People retreat, pound, march, are driven alone, together, into the street.

So briefly, too, I thought of the dark totalitarianism of *Steps in the Street*, the picture of the American Thirties still thrill. People retreat, pound, march, are driven alone, together, into the street.

Just nameless women on the move, but bringing a bygone era back to life.

Alastair Macanlay

## TELEVISION

## Autumn spectacles

And still they come, the new series for the autumn season. Of course many are "new" only in the sense that these particular episodes do not repeat: *Corned Carrot* (BBC1 Wednesday) for example takes Jasper Carrott into his 13th year on television, and switches him - unfortunately - from a live to a recorded format. Carrott was the man who began a new series a few years ago by walking into shot with a working television, proving that his show was live by flicking across to the other channels and inviting viewers to check for themselves.

It was a risky but telling gesture which would only be used, one assumes, by a true devotee of live broadcasting. Sure enough the sharp edge, that element of danger which comes from working with a safety net, is now missing. Last week's "Sweetie" spoof was nice, with the uninitiated young detectives listening in bewilderment to their guru's London accent. ("We've got a whisper about a spectacular black rumble coming my grass... I'm not saying a dicky bird till you give me a monkey" etc). But the atmosphere, that tingle which you get from watching a stand-up comedian performing live, had gone.

However, it is not these returning series which this week's column is concerned with but with the genuinely new ones, or anyway those that are new to this country. The most striking fact about the list is that so many of the programmes are American. The British have always watched American series, but since *Dragnet* and *Gunsmoke* in the 1950s they have attracted big British audiences, mainly, no doubt, because the series crossing the Atlantic have been the best that America produced. Now for the first time, thanks to the rapid rise in television hours to be filled in Britain, we seem to be getting second and third rate American material. Nor is it turning up only on the new channels. Presumably when Sky and BS2 buy up some of the better material it forces the old channels to buy from lower down the American salesman's lists.

That, anyway, is my reasoning for the presence of *Joe's House*, *MD on BBC1* (Wednesday). Perhaps the idea of a 15-year-old hospital doctor seemed good when first mooted, and maybe a lot of Americans go for its old-fashioned and rather sentimental view of teenagers and family life, but to this British eye it merely looks absurd without the benefit of being truly farcical. More than likely the sale was also helped by the name of the producer, Steve Bochco who made *Hill Street Blues*. This new series is not in the same league.

Probably *Fresno* (CA Monday) was another series which seemed hysterically funny at the planning stage: a saga of inter-family rivalry set among the rain growers of California, complete with sexy matriarch widow, con-artist son, nymphomaniac daughter in law, and an evil neighbour who is determined to do the Kennings out of their water rights. But all that is demonstrated, at great length, is what Kenny Everett proved years ago: that trying to parody *Dallas* is hopeless because you can't be more outrageous and deadpan than the original article.

The two most notable new American series are both being carried by Sky 1: *Allen Nation* (Wednesday) and *The Simpsons* (Thursday). During the first hour of the blockbuster opening episode of *Allen Nation* I squirmed at the heavy-handedness of the allegory: the "heavy comers" from space, identical to humans except for their oddly decorated hairless skulls which look like fancy bathing caps, who face persecution and discrimination. The re-writing of the *Schindler* battles over school desegregation seemed embarrassingly obvious, as did most of the other elements: the over-compensating chauvinism of the newcomers' teenage gang, the contempt of the black policeman, and so on.

Then, during the second hour, the power of that familiar old American narrative drive began to work. The heavily flagged messages about America's melting pot philosophy and its benefits to successive waves of immigrants faded into the background behind the strong story line which managed to pluck together, with no great feeling of over-construction, a hunky-dory detective yarn, giant marauding insects, and a later-day Ku Klux Klan. It is not the most profound drama ever screened, but like so much that has reached us in the past 70 years from American cinema and television it was admirable "what next?" qualities, and a very clear grasp of right and wrong.

The most heavily hyped of these new series, *The Simpsons*, looks like the sort of programme which (even if it were available to all British viewers and not just the five per cent currently receiving it) would be a major success. The Simpsons are a slovenly, violent, and pretty thick working class family headed by Homer, a beer-swilling worker at a nuclear power plant, and Marge, a housewife with a vast blue hairdo. Central to the series is Bart, a cowardly and loud-mouthed 10-year-old boy with a weirdly craniated head who is rude to his parents and always in trouble at school.

In the US great fuss has been made because *The Simpsons* is a half-hour animated cartoon, because Rupert Murdoch's fledgling Fox network rapidly made a big hit out of it with adults as well as children, and because they've bought jewellery may well grow on us. On the other hand, that of *Rob C. Nelder* (BBC4 Thursday) will not, since

Tyson, American news magazines have been writing about the surprise appeal of animation to adult viewers, and the new role of fuddy duddy network TV in ministering to a blue-collar constituency in the new middle-class age of satellite and cable.

But there is nothing new about the appeal of blue collar humour, nor about the adult popularity of cartoons: the *Fimtions* celebrated their 30th birthday last week. If you put them and *Archie* Barker and *The Howymooers* - blue collar types all - into a cocktail shaker and mixed well the result would be something very like *The Simpsons*. The worst aspect of the series is the actual artwork: crude modern drawing, with no subtlety in outline, colour or tone, and the animation itself kept to the cheapest minimum. The action is all in the foreground with no depth to the pictures. It makes the Disney features of the 1940s look like Renaissance works of art.

The *Rita Rudner* series (BBC2 Tuesday) is not American, though the eponymous hostess is. Her quiet, quirky humour ("Men who have pierced ears are better prepared for marriage; they've experienced pain and they've bought jewellery") may well grow on us. On the other hand, that of *Rob C. Nelder* (BBC4 Thursday) will not, since

Gregor Fisher plays the title role of a snotty Scot with an accent so thick as to be wholly impenetrable. We shall need more evidence before we can be certain about *The Mary Whitehouse Experience* (BBC2 Wednesday) which delivered a lot of gags suitable for radio ("John Major says we are not heading for a recession. He also met Elvis at the deli counter") which is scarcely surprising since it is, of course, a radio series. So far there seem to be no dates for further television episodes. Most promising of the new home-grown series is *Chances of Wit* (Wednesday) an umbrella title for an arts magazine which, in its opening programme, managed three highly original items: a story told in black and white stills; a splendid demolition job on the laughably overblown reputation of Van Gogh delivered by Ginevra Pollock who not only knows her stuff and speaks well but looks good too, a combination which should ensure her as much television work as she cares to have; and a fascinating analysis of Manet's pictures of the shooting of Emperor Maximilian.

All that and there is still a fortnight to go before BBC2 even begins the big set of the new American cult series, *Twins Peaks*.

Christopher Dunkley



'Without Walls': Nicholas Ward-Jackson weighs up a work of art

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## Kennedy &amp; Jones

ROYAL FESTIVAL HALL &amp; RADIO 3

The start of the BBC Symphony Orchestra's 60th birthday season, event off in grand style. Under Andrew Davis, its chief conductor, they gave on Monday night a big, serious 20th-century programme - Webern, Berg, and Schoenberg, with Boulez's magnificent *Rituel* finely placed at mid-point - and brought to it the commitment and flair that win friends and persuade people that concerts of this sort need not be thought of as obstacle-races filled with briar patches.

It no doubt helped, in the attraction of audience numbers a good deal higher than usually gathered by this orchestra's events on South Bank, that two celebrated soloists not normally associated with Modern Music had been engaged - Nigel Kennedy for the Berg Violin Concerto, and Gwyneth Jones as protagonist in Schoenberg's *Erwartung*.

Mr Kennedy turned up on stage dressed like Count Dracula: shock of electrified black hair, face painted deathly white, black velvet gown with scarlet sleeves and white ruff, and wearing a pair of purple sneakers to contradict the impression. The sartorial note is necessary, not only because viewers may welcome the warning before the BBC's forthcoming television relay of the same event, but because for a soloist in a work intended as a requiem for a beloved dead child, the violinist's dress style was so peculiarly inappropriate.

Fortunately, however, his musical style was altogether more seemly. Since Mr Kennedy now cuts such a curious figure in the musical world, it was good, indeed, to be

reminded that solid virtuoso technique and natural musicianship still form some part of it. His account of the Berg may have underplayed the Wienerisch markings and aspects of the solo line - bittersweet, waltz-swaying inflections, ample, lyrical portamento - but he responded with fierce intensity and pure, well-cut line to the gathering storm-clouds in the musical drama.

With Davis, the orchestra cultivating a febrile, highly-charged, and brilliantly detailed orchestral backdrop (the same approach as in their excellent Webern Pasacaglia and *Erwartung* accompaniment), the concerto emerged slightly narrowed in emotional range but heart-stopping in its pathos. If Mr Kennedy's career-managers will allow such excursions away from Viv and Co., this performance creates a good basis for further development.

Dame Gwyneth also merits a sartorial note: taking the libretto seriously, she appeared on the platform wearing jewels and in a white dress dotted with roses, and looked utterly ravishing. She too needs to develop her performance a good deal further. The gaze was too often addressed to the score-stand, the words were mumbled, and an overall dramatic progress through the mood-drama still has to be built up. But the sound of that mighty Isolde-cum-Elektra organ pouring itself with molten vitality and headless generosity into the anguished yet grand-scaled vocal line was utterly thrilling. How overwhelming Schoenberg with no holds barred can be!

Max Loppert

## Fraulein Else

COLOGNE

Tucked away behind the Opera and the Schauspielhaus, the tiny Schlosserei is Cologne's workshop theatre. With more than a whiff of the nightclub about its black-curtained auditorium, haphazard clusters of high bar stools and raised neon blue catwalk, it is the ideal venue for intimate drama like *Fraulein Else*. Written as the inner monologue of an upper class Viennese girl who pours out her angst and neuroses as fluently as if she were on the analyst's couch, Schnitzler's 1926 play is not an obviously theatrical work, but it is transformed here into a 60-minute play which leaves you dizzy with its psychological intensity. You can see why Freud called Schnitzler his double.

Fittingly for a play which causes on the distortion that occur when one is locked into one's own tunnel vision, the action in *Fraulein Else* takes place within a panel of light just two feet wide. A black curtain hangs on both sides as she throws out her thoughts; a cohort of alabaster-faced men in white linen suits, hats and cigarettes poised, his creepily motionless on the catwalk at her feet: elegant decadence beautifully fused with suffocating claustrophobia.

In one of several moments of pure theatrical magic, the most forbidding of the alabaster figures comes alive as the grimly commerce-obsessed Herr von Dorsday (Volker Niederhagen) poses the dilemma on which the play turns: he will redeem Else's suddenly bank-



Katja Bellinghausen

rupt father from shame and scandal if she will strip for him in his hotel room at midnight. Will she, won't she, could she, should she? There is real suspense in this drama of a young woman awakening to a sense of her social position and sexual identity, and Katja Bellinghausen, a wonderfully eloquent Else ("Die Luft ist wie Champagner", she intones, as if drinking in the words), demonstrates a full emotional range, from girlish giggles through suicidal reverie to soprano panic, in her portrayal of the poor little rich girl who loses control when her comfortable protected world is threatened.

Jackie Wulschlager

## 'La Damnation de Faust' in Paris

Comfortably installed at the Châtelet, the municipally-backed Théâtre musical de Paris continues to steal the spasmodically operative Bastille's thunder. The opening show of the new season, and visual side have a powerful unity. The style is fantastico-romantic somewhere between Bosch and Bérard - mainly dark, burnt colours, sepia, dull glowing bronze, midnight blue. Red for the most part is withheld, symbolically, until we reach hell. There are touches of popular theatre, fairgrounds and circus. Not only is the total effect potent but there are striking images to carry away - Faust framed in a doorway with the plains of central Europe stretching behind him; Faust and Mephistopheles signing a pact under a gaslit tree. Movement of chorus and circus. Not least is responsible for the "mouvements chorégraphiques" are well coordinated. An admirable feature is the lighting of Guido Levi, master of chiaroscuro and atmosphere with the technical skill to pick out features in the convulsive murk.

Naturally in a work of such complexity some scenes work better than others. Those that don't come off are precisely the pages where Berlioz, not burdened with theatrical limitations, lets his imagination roam most freely - for example in the transition from Auberbach's cellar to the banks of the Elbe, where while the music guides us through space, Mephistopheles is seen bending over the sleeping Faust as if he were performing a surgical operation. And again in the Ride to the Abyss, where the air is full of flying dragons, but the two principals clearly aren't moving at all. The upper part of the big stage is abundantly used: there is much trapezing, notably when the soul of Marguerite wings its way to heaven.

Gardiner's conducting, with its rhythmic bite and clarity combined with the music's more impressive than on the recording. The playing of the Philharmonia, resounding splendidly in the theatre's friendly acoustic, gives intense pleasure. The chorus is strong - I do not remember a more convincing performance of the cellar scene (a strong Brandier from René Schreier) or of the student/soldierly imbroglio. Michael Myers, who sings

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## ARTS GUIDE

October 5-11

## THEATRE

London

**Jeffrey Bernard is Unwell** (Apollo). Jeffrey Bernard is the alcoholic journalist who embodies a Faustian, nay-saying life force while committing public suicide by vodka. Keith Waterhouse's fine play. (457 2865).

**Aspects of Love** (Prince of Wales). Andrew Lloyd Webber's latest is an intricate chamber opera derived from David Garnett's 1955 novella. Musically interesting and well directed by Trevor Nunn. A probable, but unspectacular, hit (339 5972).

**Burn This (Lyric)** Bristling performance from John Malkovich and Juliet Stevenson in London Wilson's play about the mid-match of opposites (437 3695).

## New York

London

**Palenstained** (Lucille Lortel). It will be known as the musical about AIDS first hitting New York but it goes much further. The story follows a man on a larger circle of people, who includes a boy having a Bar Mitzvah and his parents, all three of whom (324 6722).

**Les Misérables** (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200).

## Chicago

London

**The Goodman** (Goodman). The Goodman opens its new season with a revival of vintage O'Neill starring film actor Brian Dennehy. Ends Nov 4 (441 3555).

**Kabuki** (Performances at Kabuki-za (241 3131) feature two actors who have attracted new audiences to kabuki. The star of the 11am show, Ennosuke, specialises in quick-change routines and spectacular stage effects. At 4.30pm the gifted onnagata specialist in female roles, Tamazaburo, stars in a love story about a priest and a geisha. Meanwhile, at the National Theatre (268 7411), the rarely-performed *Kingdom of the Blind* is being given (performances times vary). Both theatres have excellent earphone guide in English and English-language programmes.

## Tokyo

London

**Phantom of the Opera** (In Japanese). This highly successful production is a carbon copy of the London original, with the added advantage that one can ignore the banal lyrics, since they are in Japanese. Shimbashi Engho Theatre (797 9601).

## Washington

London

**Playboy of the Western World** (Globe Theatre). Abbey Theatre company brings what the Americans want to see to con-

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## £1m banknote devalued

A £1m banknote sold for £23,100 at Christie's yesterday to the dealer Brian Dawson. The note is one of only two £1m notes surviving from a short period of six weeks in 1945 when the Treasury issued notes to record the movement of money under the Marshall Aid Fund. There was a £10m note issued at the same time but that, along with all but two of the £1m notes, was destroyed. The price was near the bottom end of the estimate.

Also at Christie's an auction of Islamic art brought in £1,060,999, with almost 52 per cent unsold. Two folios from early Qur'ans made the top prices - eight leaves written on vellum in gold kufic in the 9th century sold for £110,000 (such Qur'ans of this date are very rare) while thirteen similar leaves from a 10th century Qur'an fetched £39,000, slightly below forecast.

An Iznik pottery dish of around 1550, in blue and white with a Chinese grape design, did well at £33,500 while a miniature Qur'an, produced around 1140 in either Spain or North Africa, also beat its target at £71,500.

Stradivari which should make over £600,000. The current auction record for a violin is \$572,000.

This example is "The Mendelssohn" named after his late 19th century owner, the Mendelssohn banking family, who were related to the composer. The violin is being sold for the benefit of the United Jewish Appeal-Federation of Jewish Philanthropies of New York. Phillips held a solid furniture auction which totalled £397,100 with 18 per cent unsold. Italian dealers were busy buying up Italian furniture. One paid £24,200, three times estimate, for an 18th century walnut bureau and £20,350 for an 18th century Lombardy walnut and ebony moulded bureau. Top price among the English mahogany and ebony strung dining chairs.

The National Gallery's appeal for £2m, to transform the adjacent Royal Dental School into a new home for its archive and library has come to a swift and successful conclusion. The Henry J and Dorothea Foundation is providing all the money needed and the Heinz Archive and Library should be open by the spring of 1993.

Antony Thorncroft

## FINANCIAL TIMES

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## Time to end sanctions

THERE ARE now compelling reasons to lift sanctions against South Africa.

The dismantling of apartheid has become irreversible, carried forward by the impetus of what President F.W. de Klerk has already done, and sustained by internal pressures. There is an urgent need to repair the damage done by apartheid, the process currently underway will be harmed, not helped, by an economy that remains in recession. And the economies of neighbouring black states are more closely linked with South Africa than ever.

The European Community and the United States cannot act overnight, and Britain should not act unilaterally. But it is nevertheless time to recognise that - with the exception of the ban on arms - trade, economic, cultural and sporting sanctions have outlived their use: the South African government is at the negotiating table. The sooner black political parties resolve their differences and join it, the better. But the bloody rivalry has nothing to do with trade embargoes or sports boycotts.

Since coming to office Mr de Klerk has crossed the Rubicon, and burnt his boats for good measure. The release of Nelson Mandela, and other political prisoners, the unbanning of the African National Congress (ANC), the Communist Party, and other proscribed organisations, the abolition of the Separate Amenities Act, the ending of discrimination in hospitals, are all part of a remarkable transformation of South Africa.

## Europe's test in cars

IF European car makers' campaign for trade protection against Japan has any redeeming virtue, it is that their lobbying has compelled them to acknowledge openly the extent of their own competitive shortcomings. Some producers in Europe now seem to be taking more seriously the need to tackle these weaknesses. The question is whether they can act quickly enough.

Mr Robert Eaton, president of General Motors Europe, emphasised last week that the only way to resist Japanese competition in the longer term was by improving efficiency. The same day, Fiat announced an exchange of assets with CGB of France which should focus the Italian group's resources more firmly on its vehicle activities.

Re-structuring around core businesses is sensible, but is only a first step in what Fiat and other European car makers must do to ensure their survival as makers of mass-produced cars. They need simultaneously to address three challenges. The first is further to improve manufacturing productivity and quality. Though they made considerable progress in the 1980s, the Japanese moved even further ahead. They take half as long to assemble a car, and their production quality exceeds Europe's highest standards.

## Development times

The second challenge is to shorten product development times. While European volume car makers need six years to develop a new model, most Japanese companies take four years or less. Because Japanese development costs are lower, they can be amortised over a shorter product life-cycle. These advantages not only produce savings and flexibility but enable Japanese companies to create new market segments, as Toyota has done with its Lexus luxury sedan. A recent study by the Massachusetts Institute of Technology argues persuasively that Japanese "lean" production techniques have displaced mass-production, enabling cars to be made profitably in low volumes.

How should European car makers respond? Horizontal mergers would not, on their

part from white fears of declining living standards as well as from general political uncertainties.

Certainly sanctions have played an important part in the sweeping change in South African politics. The most effective move was the 1985 freeze on loans imposed by international banks, forcing Pretoria to run a surplus on the current account of the balance of payments.

At the same time, however, there were - and are - forces at work within the country which pushed Pretoria towards the negotiating table, and which will keep it there after sanctions have been lifted.

Labour shortage  
A shortage of white skilled labour, the growth of black trade unions, the steadily widening gap between the size of the black and white populations, the upsurge in township violence, the divisions with the Afrikaner community as the impracticality, of apartheid became apparent: all these contributed to a political and economic environment in which apartheid could not survive.

Pressure of a different sort was being brought to bear on the ANC. Its guerrilla campaign, never very successful, received two powerful blows. Pretoria's combination of economic and military strength persuaded or coerced black governed neighbours to deny facilities to ANC fighters. Meanwhile, it was losing the unquestioning support of the Soviet Union, and watching its backers in eastern Europe succumb to the revolution. Like the government, the ANC has little alternative but to negotiate.

Complex constitutional talks lie ahead. That is no reason why South Africans should not start to tackle the legacy of apartheid, including wide racial disparities in health, housing, and education. South Africa will not even be able to keep pace with current demands in its present economic plight. The sooner sanctions are lifted, the sooner this task can begin, enhancing the prospects for negotiating a new South Africa in an atmosphere of peace.

own, offer an effective solution when manufacturing scale economies are rapidly growing less important. Nor is the answer simply further automation. The Japanese have shown that the key to improved efficiency lies in the way people, rather than machines, work. To draw equal, European producers will need to look well beyond the factory floor and integrate more closely their entire operations, from design studio to car showroom. That will require radical reorganisation, particularly of middle management functions.

## Expansion abroad

However, the Europeans need to make their cars in "lean" production if they are to avoid becoming mere regional niche players. Their third - and toughest - challenge is to expand internationally. All make and sell most of their output in Europe, and Fiat sells two thirds of its cars in Italy. The European industry's narrow geographic base leaves it wide open to attack by its leading Japanese competitors, which sell - and will soon be producing - in volume in the world's three largest car markets. Japanese producers' international diversification, as well as insulating against fluctuating labour costs and exchange rates, permits reduced unit costs and a more varied worldwide model range.

European producers have won only a small fraction of the North American market. That record scarcely bears out claims that their modest sales in Japan are due largely to unfair trade barriers. It also contrasts starkly with Japanese companies' success in capturing 30 per cent of the US car market in barely a decade, and in producing two thirds of their sales locally.

Europe's car makers should view that achievement as a reason to redouble their own efforts, not for dismay. They still possess the capacity to regain world competitiveness. However, they need to recognise that they also have much to learn from the Japanese, and not much time left to so. Humbling as that realisation may be, it is far better than baying for protection in the vain hope that the Japanese challenge will go away.

It is, quite simply, the most potentially symbolic place for Palestinians seeking to remind Israel - and, for that matter, the world - of their anger and frustration.

Wrested by Israel from Arab hands in the 1967 Six Day War, the spiritual heart of Jerusalem's Old City offers an extraordinary physical compression of competing faiths. Directly below the hallowed spaces surrounding the Dome of the Rock and Al Aqsa Mosque, the third most holy place in the world to Muslims, or Wailing Wall, the most sacred Jewish site.

On a quiet day, it is possible to hear the prayers of Muslim and Jew mingle, punctuated at times by the peal of church bells from Christian shrines in the Old City. But on bitter days like Monday, when Palestinians rained down stones on Jewish worshippers at the Wall and Israeli policemen replied with bullets killed more than 20 and wounded 150, the atmosphere is anything but spiritual.

The violence served as a traumatic reminder that Palestinian resistance to Israel's 23-year occupation of Arab east Jerusalem, the West Bank and the Gaza Strip, and Israel's bloody response, has not gone away. It also underlined in dramatic fashion the extent of the political and economic difficulties now confronting Israel.

For the past two months, Israel's attention has been focused on two issues which together comprise an external and internal challenge the like of which the country has rarely faced in its 42 years of existence.

The Gulf crisis, which apart from threatening to embroil Israel in a regional war, has serious implications for Israel's lynchpin relationship with the US and for its position in the Middle East.

A flood of immigration by Jews escaping from the uncertainties of life in the Soviet Union, *Aliyah* - literally ascension - is an overriding issue, as Mr Yitzhak Shamir, the territorial prime minister, keeps reminding his people between warning growls at President Saddam Hussein of Iraq. More than 1m Soviet Jews are now expected to swell the existing population of 4.7m within as little as three years.Until Monday, these twin preoccupations had tended to eclipse the rather older question of the occupied territories. The *shofar*, or Palestinian uprising, had faded in intensity as it progressed through its third year. But as the unprecedented bloodshed in the Old City showed, it remains a central concern for Israel as the Gulf crisis and immigration.The three are intertwined in a way that presents great complexities for Israeli policymakers. Immigration by Soviet Jews has fuelled the *shofar* because Palestinians - who hitherto have easily outbred Israel's Jewish population - fear the demographic tilt in favour of Israel will finally shut the door on any prospect of a Palestinian state. But the enormous financial cost of immigration threatens to weaken the Israeli economy and its ability to bear the big defence burden caused by the occupation.Israel's appeal for more aid from the US, to help it cope with immigration, has been undercut by Washington's immediate need to bolster allies affected by the blockade of Iraq. Meanwhile, Mr Saddam's insistence on linking Iraq's claim on Kuwait to Israel's occupation of Arab lands has turned him into a hero of the *shofar*.The Israeli government - a coalition composed of extreme right-wing factions and religious parties and led by Mr Shamir's Likud Party - has shown little imagination in response to these challenges. Its handling of the tide of immigration has been modest. Its reaction to the *shofar* remains a stubborn refusal to yield territory, coupled with an offer of limited autonomy few Palestinians show much inclination to accept.

## Caring owner needed

Some think it is the most elegant building on the Thames. Others think it is a French-Canadian château transplanted. Discreetly floodlit, London's County Hall is looking at its best on these autumnal evenings as one crosses Westminster Bridge. Up-river over Chelsea, it is a sight to behold. The hall seems just right for its central position.

Whatever your view, the hall rarely fails to arouse strong passions. And after more than four years without a proper function it again faces an uncertain future now that its projected sale to an Anglo-Japanese consortium for £15m has collapsed.

It saw high jinks on March 31 1988 when the left-wing Greater London Council was abolished. There was dancing through the night. Meanwhile, typewriters and other moveable goods were being passed out through the back windows. Cleaning up took rather a long time after that. But the London Residuary Body (LRB) assures me that everything is shipshape inside now.

LRB itself moved its 1,500 staff out this month to a leased building on the other side of river so that the planned sale could be completed. While the hall remains empty it will have to pay for an army of several hundred security guards.

If the hall is not to become a conference centre, hotel, offices, and flats, as the consortium had intended, what is its future to be? Ideas have included a London amusement centre, a night shelter for the homeless, and a gigantic supermarket.

Only the length of Westminster Bridge from the Houses of Parliament, it once could have provided a solution to the lack of offices for MPs. But now office conversions are alleviating their problems.

Hugh Carnegie says the killings in Jerusalem have further unsettled a country already preoccupied by the Gulf and immigration

## Israel's rising tide of troubles



But Mr Shamir and his ministers sense that trouble is brewing for Israel as a result of the Gulf crisis. There is anxiety that the US might waffle for an outcome short of Israel's desire to see the Iraqi regime and its panoply of nuclear, chemical and missile sites destroyed. "If Saddam Hussein remains in his chair, Iraq will continue to be a menace to Israel," says Mr Yossi Achimeir, a close aide to Mr Shamir. "We would like to see his reign come to an end very soon."

If this is not the outcome, Israel will clearly retain the option of one day attempting the job itself, although for now it remains, as one writer put it, hunkered down on the western bank, hand on gun.

So far the most disconcerting development for Israel has been the way events in the Gulf have raised questions about the country's relationship with the US - America's most dependable, stable ally in the region, as Israeli ministers like to say.

The deepening relationship between the US and Saudi Arabia (a state which, technically at war with Israel), and the warming of US ties with Syria, and the consolidation of the US-Egyptian link have raised fears of a tilt in the

US Middle East posture. Talk by Mr James Baker, the US secretary of state, and others about a new security structure in the Middle East merely adds to the concern at a time when the old certainties of east-west confrontation, in which Israel could cast itself as a "strategic asset" to the US, have melted away.

In a recent article, Mr Ya'acov Goldberg of Tel Aviv University's Dayan Center, suggested that the US might come to perceive its ties with Saudi Arabia as the central strategic pillar in the region. This, he warned, would be "liable to have an adverse effect on Israel's position as a strategic US asset, co-operation between Jerusalem and Washington and the American position on the Israeli-Palestinian peace process."

Israeli ministers do not like to hear it said, but the intimate connection between Washington and Israel has been a complicating factor for the US in confronting Iraq, offering as it does the opportunity for Baghdad to try to divide the US-Arab alliance.

Israel has been of undoubted assistance to Washington since the beginning of the crisis. It supplied the US with "highly-accurate missiles" and intelligence on the nature of Mr Saddam's leadership, according to General Michael Dugan, the former US air force chief who was sacked last month for saying so to US journalists. Yet at American insistence, Israel has maintained a low profile, and Washington has kept a discreet distance from its ally. As senior US officials have criss-crossed the region during the crisis, not one has dared to

stop off in Israel. The most worrying manifestation of the shift is in arms sales. Washington is making huge weapons pledges to Arab allies, chiefly Saudi Arabia, while responding with noticeable coolness to Israel pleas for balancing aid to retain its military "qualitative edge". "The American policy [of assuring Israel's] qualitative edge is not being implemented any more," Mr Moshe Arens, the Defence Minister, complained this month. "We don't have a situation in which the US is selling Israel equipment of higher

quality than it is selling the Arab armed forces."

US officials insist that the close relationship with Israel is not about to change. The commitment to the qualitative military edge is still there, they say, as is a whole range of military and research projects. "All the cultural and democratic values that inform the relationship remain," said one western diplomat. "There are so many elements of the strategic relationship which are still advantageous. The focus may be under review, but I don't think the concept is."

Whatever the outcome of the Gulf crisis, there is little question that the

spotlight will thereafter once again be on efforts to resolve the Israeli-Arab conflict. Mr Shamir's government is at once encouraged by the shift in Soviet policy away from such Israeli foes as Iraq and Syria and wary that, as a result, the US might edge towards the continuing Soviet presence for some kind of international conference to solve Middle East problems, including the Palestinian issue.

Israel remains adamantly opposed to this comprehensive approach, recognising that such a conference would be hopelessly biased against it. But it is also aware of US frustrations at the lack of progress - chiefly due to Likud intransigence - on Israel's own plans for an accommodation in the occupied territories. There is growing unease in Israel that for all the West's refusal to countenance any linkage between the Iraqi occupation of Kuwait and other Middle East issues there is an increasing tendency among western leaders to exert pressure on Israel to settle the Palestinian issue.

Presidents George Bush and Francois Mitterrand have both suggested that fresh efforts might be made to resolve other Middle Eastern conflicts after Iraq gets out of Kuwait; Mr Douglas Hurd, the British foreign secretary, last week made a toughly worded speech in which he called for "new thinking" from Israel on the Palestinian issue.

Not, of course, that Mr Shamir's government has shown any sign of shifting its ground, least of all in its adamant refusal to countenance a Palestinian state. It says that Palestine Liberation Organisation support for Mr Saddam makes the organisation even less worthy of becoming a negotiating partner than before. It continues to object to US proposals for starting talks with the Palestinians on its own plan for the West Bank and Gaza offering limited autonomy.

Government officials do lay greater stress on wanting to normalise relations with Arab neighbours if not before, then at least in parallel with progress on the occupied territories. They want the US to put pressure on Saudi Arabia, for example, to this end. Mr Shamir has also flirted with the idea of negotiations with Syria. But Israeli policymakers, pointing to Mr Saddam, remain deeply distrustful not just of Arab leaders, but also of Arab society which they still regard as inherently undemocratic, unstable and hostile.

While these issues will not crystallise until the Gulf crisis is resolved, the government must get on with the job of absorbing the Soviet immigrants. If it can be achieved successfully, the prize for Israel is much greater demographic security - one senior figure spoke of "critical mass" - greater economic vitality and, as a consequence, a stronger position from which to deal with the Arabs.

But such a goal will not be easily attained. Already the country is close to exhausting its housing stock, raising the prospect of many immigrants having to live in tents. The costs associated with such an influx are huge. The trade gap alone over the next five years is expected to be \$30bn, about three quarters of annual gross domestic product. In the same period, 540,000 new jobs will be needed just to keep unemployment steady at its present level of 10 per cent. The inflation risks associated with such figures are great.

The nightmare that lurks behind *oliyah* is of thousands of disgruntled immigrants without jobs and proper housing trying to leave the country, perhaps clashing with established communities blaming them for their economic woes. Mr Shamir and his colleagues know that such an outcome carries scarcely less of a threat to the fabric and wellbeing of Israeli society than the shadow of Mr Saddam looming in the east or the scenes of violence in Israel's holy places.

## OBSERVER

Can anyone suggest a dignified new use for County Hall - preferably one which doesn't involve its owners, the citizens of London, giving it away?

## His UN hat

David Shilling, the upper-class milliner known at Ascot as the mad hatter of the turf, is this week taking his creations to Ecuador in a bid to jolt the country's hat industry out of recession.

The United Nations has asked the flamboyant British designer to lead a mission to the country which gave birth to the Panama hat. His brief is to promote international trade with artisans.

Shilling, whose work has great catwalks from New York to Moscow, yesterday sported a jaunty felt creation and predicted his trip would, "be like rediscovering America".

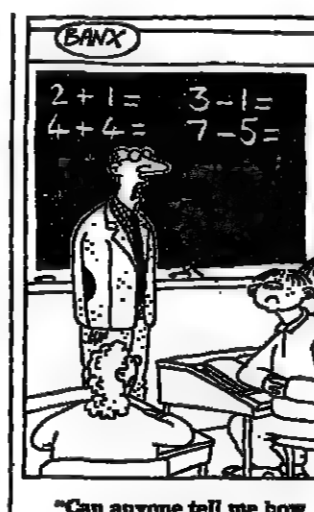
He hopes his advice will help reverse the plight of the straw industry in Ecuador, which relies on hat sales.

The UN is serious about the importance of the trip. "His major objective will be to sensitize artisan producers to the fashion and quality requirements for positioning their products in western consumer markets," says a spokesman.

Ecuadorian styles may soon be gracing the heads of the European rich and famous.

## New justice

There is intense US media and public interest, and high passions have been aroused, over the matter of whether Michael Milken, the former "junk bond" king at the failed investment bank Drexel Burnham Lambert should go to prison.



"Can anyone tell me how many months to a June election?"

It would be a tricky assignment for any judge. And for Judge Kimba Wood, who was appointed to the bench only two years ago, and who has so far presided over more routine cases, it will be baptism of fire when the hearing starts tomorrow.

Yet the newest federal judge in New York shows every sign of keeping a firm grip on her courtroom. Last week, for example, she sweetly punctured a long and increasingly impassioned speech from Arthur Liman, Milken's sleek and experienced lawyer, by telling him that he was "preaching to the converted" on his final, relatively technical point.

And, when an attorney for certain state pension funds asked to intervene in this week's hearing of Milken's "unsubstantiated crimes", she neatly suggested that written questions could be submitted to her clerk. The lawyer was left offering effusive thanks.

Softly-spoken, and in her mid 40s, Wood comes from an

army family. She passed through the London School of Economics and Harvard Law School on her way to the New York law firm of LeBoeuf, Lamb, Leiby &amp; MacRae. There, she became a partner in the late 1970s, a notable achievement for a woman in those days.

She is also reportedly fond of growing roses and vegetables - a suitably patient pursuit which she might recommend to Milken now that he has time on his hands.

## Mornin' Guv!

Early-morning strategy meetings at London banks were sombre affairs yesterday after the rapid dissipation of ERM euphoria. But they were tinged with punctuation.

According to Reuters screens, the Bank of England's governor, Robin Leigh-Pemberton said in Tokyo that Britain's economy was sound and that interest rates were due to fall because of economic trouble.

Strategists were not quite sure why the Bank was predicting future interest rate cuts to the Tokyo bureaux of news agencies. By the time meetings finished, however, the predictable truth had emerged. Of course Leigh-Pemberton had not said interest rates were due to fall. He had said inflation was due to fall.

## What Chase?

My jokes on October 1 about Chase Manhattan merging with the National Bank of Poland (is that good news or bad news?) was more than a joke.

But real life can always beat fiction. Solidarity has now signed an agreement with Chase International Corporation of the US to set up a Polish bank.

Chase Manhattan, however, denies all knowledge of the deal, and is even now trying to discover the identity of its namesake.

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As the new Airbus plant opens, Paul Betts asks whether the volume of orders will ensure profit

## Aircraft industry faces hard landing

President François Mitterrand could not have chosen a more difficult and uncertain moment for the opening of the world's largest aircraft plant in Toulouse today, one of the world's largest industrial complexes. Squeezed by soaring fuel prices and the threat of recession, airlines balance sheets are coming under mounting pressure, threatening to bring to a premature end the surge in new aircraft orders of the past few years.

The new Toulouse facility was conceived three years ago by Aerospatiale, the French state-owned aerospace group, at the start of an unprecedented commercial aircraft production cycle. Involving industrial investments totalling about FF7.7bn (\$1.2bn) on a 150-acre site and at other Aerospatiale plants, it was designed to prepare for production of the latest members of the Airbus passenger aircraft family: the A340 four-engine, long-range jet and the A330 twin-engine, medium-range jet.

The investments include Europe's biggest industrial building, a giant FF1.5bn high-technology, partly-robotised aircraft assembly hall to rival Boeing's huge Everett facility built 20 years ago in Seattle for the production of the 747 jumbo jet.

Ironically, the most pressing question today is not so much how efficiently Airbus can manufacture aircraft to compete against its US rivals, but whether the market will ultimately provide the necessary volume of orders to ensure profitable production. The euphoria that swept the airline and aircraft manufacturing industries in 1987 when Aerospatiale launched its Toulouse investment programme and was still prevailing barely 12 months ago, has now been replaced by deep foreboding.

With the US economy moving into recession, the world's largest civil aircraft manufacturer is entering a period of heavy turbulence. Growth in Europe is slowing down. High interest rates and soaring fuel prices are hurting airline balance sheets. Banks, the principal source of financing for new aircraft purchases, are coming under pressure. The continued uncertainty over the Gulf and fuel prices are making the future look even bleaker.

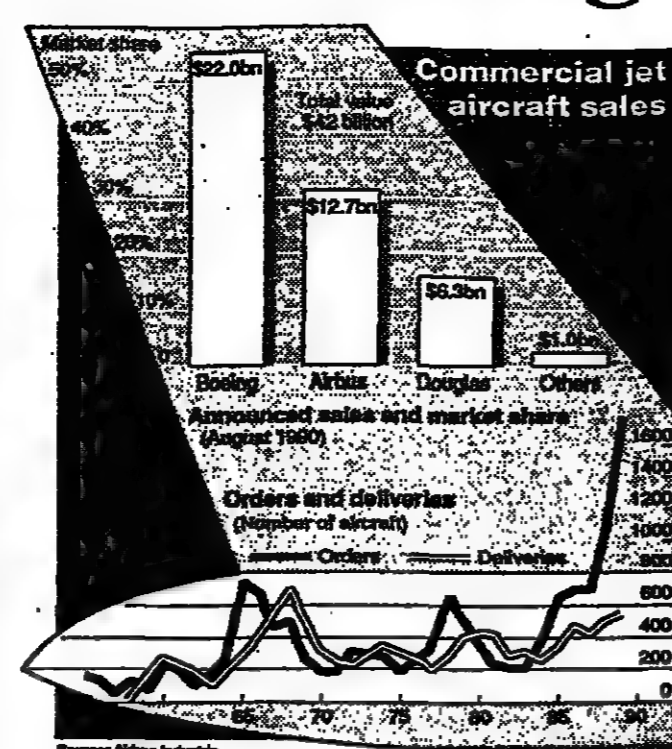
Aircraft makers have tried to put on a brave face recently. On both sides of the Atlantic, they have argued that aircraft buying was bound to peak at some stage and that although the market was showing signs of softening, multi-million-dollar orders have continued to flow in. "We expect the situa-

tion to get tougher, but so far we are still winning big orders," said an Airbus official after the European group announced two large orders for its A320 narrow-body jetliner last week: a \$5bn deal from America West and a \$1.8bn order from Swissair.

But privately they are acknowledging that some of the "firm" orders on their books are becoming shaky. Indeed, some airlines have already started to defer deliveries of new aircraft on order. US Air recently announced it was postponing delivery of 18 new Boeing 737 twin engine jets for several years to get its balance sheet in order.

Aircraft manufacturers concede that an extended period of high oil prices could have a severe impact on the industry. Mr. Lou Harrington, head of McDonnell Douglas MD-11 jet programme which competes directly against the new Airbus A340/A330 programme, suggested at the Farnborough Air Show last month that such an eventuality could have devastating repercussions, reducing commercial jet aircraft demand by more than 45 per cent with the potential loss of about \$800m-worth of business over the next 20 years. If oil prices remain high for only a relatively short period, new aircraft demand was still likely to be 10-15 per cent.

For Airbus, the threatened downturn in the civil aircraft cycle comes at a delicate time, when the European consortium is entering an important phase in its tumultuous 20-year history. The four Airbus industrial partners and their respective governments are now trying to transform the consortium into a more commercially-oriented enterprise. The ultimate plan is to turn



Airbus into an ordinary public limited company run on entrepreneurial private sector lines. Although the four partners say this change will still take two to three years, they claim the Airbus system has already made enormous strides to improve its overall productive and management efficiency.

The latest FF7.7bn French investment forms part of this attempt by the partners (Aerospatiale, Deutsche Aerospace, British Aerospace and Casa of Spain) to make Airbus more efficient.

The Toulouse facility breaks new ground in commercial aircraft manufacturing by using a modular concept instead of the traditional assembly-line system to achieve maximum flexibility and reduce the production cycle.

After the initial assembly of the wings on the fuselage, each aircraft is placed in its individual dock where it remains for the rest of the entire final assembly process instead of continuing to move down the assembly line. Aerospatiale says its assembly operation will make it possible to produce A340 and A330 aircraft at a rate of seven a month.

Mr. Jean Pierson, the excellent Airbus chairman, announced with theatrical élan at Farnborough that Airbus would make a profit this year for the first time. Orders have already topped 1,500 aircraft, and more than 600 have been delivered to customers. Airbus production will amount to about 100 aircraft this year and would have totalled 130 had it not been for the long and costly BAe engineering strike which caused considerable friction between the partners. By 1995, annual production is expected to rise to about 230 aircraft.

The A320 computer controlled "fly-by-wire" narrow-body aircraft has become the best-selling new jetliner in the past three years. Mr. Pierson claims Airbus has now gained a big advantage over Boeing in the market for new twin-engine wide-body aircraft by developing its A330 well before the rival US group's

767X wide-body twin which has yet to be officially launched.

But although Airbus expects to report a paper profit for the first time, it does not follow that its four industrial shareholders will start reaping any significant return for the capital which they have ploughed into the consortium.

Under the contorted Airbus system, the four industrial partners are both shareholders and subcontractors of the Toulouse-based Airbus Industrie (AI) consortium. They supply and are paid by AI for their share of work in the programme. But at the end of each year, they have had up to now to cover AI's losses in proportion to their respective stakes.

A report by Gellman Research Associates of the US estimates that Airbus partners have so far had to cover losses of more than \$20m on Airbus production by subsidies. But with Airbus programmes maturing, the consortium's cash flows are expected to turn positive. This has in turn added ammunition to the US government's case that there was no longer any reason for European governments to continue subsidising Airbus production. The US threatened to take the issue to the General Agreement on Trade and Tariffs (GATT) last month. However, Washington subsequently withdrew the threat after progress had been made between the two parties in the negotiations to resolve the dispute.

If Airbus Industrie, as Mr. Pierson predicts, makes a profit this year, the partners will receive a dividend. For Professor Roland Smith, BAe's chairman, this would be a "major step forward" but he also recognises that the consortium still has a long way to go before producing a real return. Moreover, AI conducts all its business in US dollars and its accounts are thus not subject to swings in the dollar exchange rate. This is not the case for the individual partners which have had to absorb the full impact of the lower dollar.

Airbus and its partners believe the consortium will become one of Europe's biggest industrial groups by the mid-1990s with an annual turnover of about \$1.5bn. With its broad family of airliners, Airbus expects to command at least 30 per cent of the commercial aircraft market during the next few years, and for certain categories like the A330 wide-body twin as much as 40 per cent.

But if Airbus is to convert its impressive marketing success story into financial success, much will depend on whether the market for new commercial aircraft will continue defying the laws of gravity.

## Britain's entry into the ERM

### Fixed exchange rates and the lessons of history

By Douglas Jay

Debate on the UK's adherence to the ERM has been conducted for too much in terms of economic and political doctrine. A hard look at the actual economic experience of recent years may therefore be useful. Such a look prompts the conclusion that if UK adherence means a fixed sterling exchange rate with the D-Mark, the effect would be highly damaging to this country. And if it does not, nothing will have been gained by joining. In any case, fixity with the EC currencies will still mean floating with the currencies of the rest of the world, with whom we do half our trade.

The exchange rate is a price like any other, which brings different economies into some sort of balance. If you fix it, you will just as certainly generate a disequilibrium as you permanently fixed the price of oil or rate of income tax. Unfortunately public opinion swings every 20 years or so between demanding floating rates when they are fixed, and fixed rates when they are floating.

History shows, first, that exchange rate levels are more important than ever, and second that the UK is particularly sensitive to them. Between mid-1979 and November 1980 the sterling rose against the dollar from \$2 to \$2.45. There followed the sharpest fall in UK real output in a three-year period since 1850. Real manufacturing output fell 20 per cent in three years. Unemployment rose 60 per cent in the 18 months up to January 1981, and for the only time in UK history the rise continued for seven years.

Then, sterling fell 30 per cent against the D-Mark between mid-1979 and February 1987, with dramatic results. In 1986, unemployment started to drop for the first time for seven years. Nigel Lawson discovered that he had performed, though unintentionally, an economic miracle. Meanwhile in France and Italy, which had joined the ERM, unemployment was steadily rising and is today well above UK levels. France's total unemployed doubled in the years between entry to the ERM and 1988.

All the arguments used for

joining the ERM were used from 1920 to 1925 for fixing the dollar-sterling rate of exchange at the historic \$4.86. This would, we were assured, achieve "stability", and a "strong currency". For a few months in 1926 the fixed rate was greeted with euphoria. But by the end of that year the economics of the coal industry collapsed, and 1926 brought not stability, but a six-month coal strike, the General Strike, long-drawn-out unemployment and an irresistible run on sterling in 1931. Keynes had estimated the over-valuation in 1925 as 10 per cent, much less than it is today.

In the UK after the 1931 depreciation, a remarkable recovery occurred. The freeing of the exchange rate enabled interest rates to be reduced. The Bank rate dropped to 2 per cent at the time of the 1932 War Loan conversion and stayed there for 20 years. UK unemployment steadily fell. Manufacturing output rose 58 per cent (in real terms) between 1932 and 1937. Yet in these same years after 1931, France, Belgium, Holland, Switzerland and Poland formed the "Gold Bloc", an almost exact prototype of the ERM. Gold parities, and therefore mutual exchange rates, were fixed, and central banks worked together. From 1931 to 1935-36 all these countries suffered deepening depression and unemployment until Belgium broke ranks and devalued in 1936, followed by France in 1936 when recovery began.

After the 1939-45 war the UK devaluation of 1949 was an adjustment to the economic facts of the postwar world; and was followed by a UK balance of payments surplus in 1950 and throughout most of the 1950s. In the view of Sir Alec Cairncross ("Sterling in Decline") that devaluation restored balance between the whole sterling and dollar worlds. The 1967 depreciation gave us nearly £1bn in payments surpluses in 1970 and 1971, with low unemployment and without oil. Similarly, the German economic miracle of the 1950s was very greatly helped by a much undervalued DM, which was shrewdly devalued with sterling in 1949.

The right exchange rate for any economy is that which will enable it to use its full capacity and achieve a sustainable balance of payments. Sterling is therefore demonstrably overvalued today, probably by 15-20 per cent in the view of Professor Wynne Godley and fellow authors ("Britain's Economic Problems and Policies in the 1980s" IFPR).

Those who now believe that the "discipline" of a high exchange rate would somehow restrain further rises in pay rates and prices are, I fear, misleading themselves. First, because most pay negotiators are not themselves unemployed, and second because exorbitant salaries earned in the City have made any patriotic or moral appeal for moderation useless. In these circumstances, big and small companies, squeezed between weak demand and rising pay rates, would more often be disciplined into liquidation. But the greater error of believers in this discipline is to forget that any rise in prices due to a lower exchange rate, needed to correct overvaluation, is simply the real premium which a nation charging too much for its goods has to pay for getting back into balance.

Britain has now deprived itself of import controls, exchange control, incomes policy, low-cost food imports, and credit controls. The only instrument left for curing our huge balance of payments deficit is, therefore, the exchange rate. To give it away seems to me a strange decision. And the most probable outcome must be expected to be a few months, perhaps weeks, of euphoria, followed, as in former years, by a worsening payments deficit, a weakening pound, higher interest rates, cost of reserves, and rising unemployment.

Moreover, in the case of a persistently weak exporter like the UK the rate which is right one year will be wrong two or three years later. Until the fundamental weaknesses and handicaps hampering our economy are remedied, the need is for prudence and not gratuitous adventure.

The author is a former Labour MP, financial secretary to the Treasury and president of the Board of Trade.

## LETTERS

### Challenges tackled by the accountancy profession

From Mr. Michael G. Lickiss.

Sir, Your editorial comment and David Waller's article ("Accounting under scrutiny," October 4) were extremely apt. The investor, whom this government wishes to encourage, has much to worry about valuations of "off balance sheet" debts and leasing contracts, also the chronic ruling of the Lords re auditors liability in the Caparo/Fidelity takeover.

Can an auditor stand up to a powerful chairman/chief executive, especially when the client represents a large part of his firm's revenue? Perhaps the parameters of qualification need strengthening, or maybe

professional bodies then in the obstructionism of some large companies which did not like the impact of certain standards on their freedom to report exaggerated earnings per share. (The saga of inflation accounting is a good example).

Now, as before, the first duty to comply with accounting standards rests on directors. But the Companies Act 1989 gives the ASB some teeth to ensure compliance with which will be monitored through the audit regulatory regime being discussed with the Department of Trade and Industry. This regime will be the third area of change for the profession.

Mr. Waller tries to have it both ways by alleging that the profession was defeated by the government in trying to ensure a weak regime (which is untrue) and that the frequency

of monitoring will be inadequate. The fact is that the proposed monitoring regime will be the first time that firms of auditors have been routinely inspected by outsiders, at a total extra cost of \$2m a year. By any measure this is a radical change for the auditing profession. I suggest that Mr. Waller, and others, should give this fundamentally new system a chance to work.

Finally, my institute has just undertaken a major review of its professional discipline arrangements to ensure that they are tough enough for the modern commercial world. The results of that review are now out for consultation. Michael G. Lickiss, president, Institute of Chartered Accountants, Monrovia Place, EC2

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### Too much joy

From Mr. Sam Williams.

Sir, Your review of Britain's entry into the ERM on Saturday was excessively jubilant. In four pages you did not discuss any of the limitations.

In a system of fixed exchange rates, what mechanism is available for macroeconomic adjustment between nations? How is Britain or Spain to deal with going current account surpluses in the face of Germany's greater productivity growth? Sam Williams, 89 Worship Street, EC2

From Mr. D.M. de Yong.

Sir, Your editorial comment ("Accounting under scrutiny," October 4) was extremely apt. The investor, whom this government wishes to encourage, has much to worry about valuations of "off balance sheet" debts and leasing contracts, also the chronic ruling of the Lords re auditors liability in the Caparo/Fidelity takeover.

Can an auditor stand up to a powerful chairman/chief executive, especially when the client represents a large part of his firm's revenue? Perhaps the parameters of qualification need strengthening, or maybe

reporting to a "special" committee.

I have always thought that when the going gets tough, like now, the mistakes missed by auditors turn up.

D.M. de Yong, 34 Addison Avenue W11

From Mr. C.C.H. Beresford.

Sir, Your accounting editorial includes the sentence: "There have been times when the accounts have appeared more like public relations documents than the work of independent auditors acting in the interests of shareholders."

I am sure this is loose language on your part rather than ignorance of the fundamental point that the presentation of accounts is the responsibility of the board of directors of a limited company rather than the auditors.

But I am not sure which is the greater sin. If the editor of the leading financial newspaper in Europe disregards this point, how can the business community as a whole be expected to appreciate it? C.C.H. Beresford, Bursions Way, Chalfont St Giles, Buckinghamshire

### The government could stop blaming the statisticians now

From Mr. M.R. Wells.

Sir, The view is gaining ground ("Economists open inquest on Lawson era," October 4), helped partly by the recent issue of the Treasury Bulletin, that the economic mismanagement of 1987 and 1988 should be attributed to inaccuracy in the economic statistics, and is therefore not the government's fault. It is surely time to try quantify the basis of this claim.

The best measure of demand in the economy is the level of gross domestic product (GDP) at current prices. This identifies the money value of total spending and total output. There is, of course, the very important question of the extent to which this value measure of output is reflected in quantities and the extent to

which it is reflected in prices, but it would be an example of gross mismanagement to tolerate a marked increase in the rate of growth of GDP at current prices in the hope that output rather than the price level would respond.

To investigate whether the statistics should be blamed, we need to examine the money GDP data as they first appeared. They can then be compared with the current perception of the period.

It is apparent from the figures that growth in money GDP was underestimated in 1987 and 1988. The error was rarely less than 1 per cent per annum and in the first quarter of 1988, at the time of Mr. Lawson's inflationary budget, it reached 2 per cent per annum. This would appear to support

the government line. But a more critical look at the figures suggests that they should not be blamed for economic mismanagement. The rate of growth of money GDP in early 1987 was believed to be around 7 per cent per annum (but was in fact 8 per cent). A believer in the Thatcher economic miracle might think that productive potential was growing at 4 per cent per annum with the implication that this rate of growth of money GDP was consistent with inflation of 3 per cent per annum. Not quite the zero inflation we were promised, but not too bad either.

By the time of the 1988 Budget someone relying on the data as published would have concluded that the rate of growth of money GDP was just under 10 per cent per annum. With a favourable supply side response delivering 4 per cent growth, this would imply underlying inflation of 6 per cent per annum. Those sceptical of the Thatcher miracle would have seen the situation as much more inflationary. In any case, many of us would be very interested to hear why the government thought that in large tax reductions and interest rate cuts were a sensible policy in the light of the evidence they had of the increase in demand. Unfortunately the 30-year rule means we may have to wait a while to find out. But the government could stop blaming the statisticians now. M.R. Wells, Faculty of Economics and Politics, University of Cambridge

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## Hanson faces failure over Newmont shares sale

By Kenneth Gooding,  
Mining Correspondent

HANSON, the UK-based Anglo-American conglomerate, faces an embarrassing failure of its attempt to release at least \$350m of the \$1.5bn it has tied up in Newmont Mining, the biggest US gold mining group, analysts suggested last night.

Hanson and Newmont between them hoped to sell 12m Newmont shares plus 6m warrants. But yesterday Newmont said it would not go ahead with the sale of the 3.6m new shares it intended to contribute.

However, Hanson said it still hoped to proceed with the sale of 3.4m of the Newmont shares it acquired in August last year when it took over Consolidated Gold Fields of the UK.

The market did not take kindly to the news that Hanson had not yet admitted defeat, and Newmont shares fell in New York by 1 1/2% to 33 1/2% on the news. They stood at \$47 before the share sale proposal was announced on August 30.

Then it seemed that Hanson hoped to raise between \$40 and \$45 a share from the sale of the equity and the warrants, which would enable each holder to one Newmont share.

There was doubt whether the market could absorb so many Newmont shares; market conditions are difficult because the gold price has not jumped as high as some observers expected after the invasion of Kuwait.

A proposed issue of shares by Amstar Gold has been cancelled and analysts have been giving the Newmont issue little chance of getting away.

Mr Graham Birch, analyst with Ord Minnett in London, pointed out that the market was disappointed that Hanson had not found a corporate buyer for all its 40 per cent shareholding in Newmont.

He said US gold funds had no appetite for shares because they were suffering a loss of funds. He suggested that whether the sale went ahead depended mainly on whether Hanson would be willing to take a paper loss on his Newmont shares, acquired for about \$36 each.

## UAL board rejects latest buy-out offer for airline

By Nikhil Tait in New York

THE BOARD OF UAL, the parent company of United Airlines, yesterday rejected a new bid for the US carrier from the employee-led buy-out team.

The buy-out group, comprising unions and employees at the airline, has spent more than a year trying to mount a successful takeover of United.

After a brief meeting yesterday morning, the board said it had terminated the agreement which it had agreed to enter into last April.

It dismissed the latest bid by the unions and employees on the grounds that the value was uncertain, but "substantially lower than the April 9 agreement".

The board also said the proposal was not accompanied by definitive financing arrangements and "was subject to other significant contingencies". There was no immediate response from the buy-out group.

The buy-out team had not said publicly how much it thought the offer was worth. However, it made clear at the weekend that attempts to raise a \$2bn bank debt facility to fund a predominantly-cash offer had failed, and that the latest bid would comprise less cash and more securities.

Wall Street had speculated that the cash element might amount to about \$70 a share, with the paper portion valued at slightly more.

Based on those estimates, Wall Street had anticipated rejection by the board, driving the UAL share price 10% down to \$81 during the past few days before trading was halted yesterday.

The board had previously accepted a \$201-a-share offer from the buy-out group which gave each UAL shareholder \$155 a share in cash, with the balance in securities valued at \$46.

Rejection could signal industrial unrest at the company. The unions, which have imposed a voluntary moratorium on wage negotiations while the buy-out attempt is under way, have indicated that if the attempt fails, they will attempt to claw back lost pay increases and consider strike action.

Rejection by the board might trigger shareholders' action. Coniston Partners, UAL's largest shareholder with 11.8 per cent, has threatened to replace the board if it turns down a "reasonable" offer.

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## Motorola results hit shares

By Louise Kahoe in San Francisco

SHARES of Motorola, the US electronics and semiconductor manufacturer, plunged by over 12 per cent yesterday on news of lower than expected third quarter earnings.

The company's stock opened at \$52, down from \$59 in heavy trading on the New York Stock Exchange.

The company reported earnings of 76 cents per share, up from 69 cents in the third quarter last year but substantially below analysts' projections of \$1.18 to \$1.25 per share.

Earnings for the quarter were \$102m, or 76 cents per share, compared with \$89m, or 69 cents. Third-quarter sales rose 12 per cent to \$2.70bn from

\$2.41bn in the third quarter of 1989.

Non-recurring charges during the quarter were offset by non-recurring gains, the company said.

It did not disclose details but said one-time charges were associated with the consolidation of its Mobile and Portable Products divisions.

Gains were attributed to the sale of a building in Massachusetts and payments associated with the settlement of semiconductor intellectual property disputes.

Earlier this week Motorola announced the settlement of a long-running dispute with Hitachi of Japan over microprocessor patent rights.

For the first nine months, earnings were \$300m, or \$2.95 per share, compared with \$260m, or \$2.62, a year earlier. Sales were \$7.95bn, up from \$6.97bn a year ago.

Mr George Fisher, chairman and chief executive officer, said new orders in leading businesses increased throughout the world, despite economic uncertainty in the US.

The most rapid growth was in Asian markets.

"Our semiconductor business continued to do well. Profit pressure in the communications arena stems from investments that are setting the stage for long-term growth," he said.

## Canadian securities firms cut costs

By Bernard Simon in Toronto

SEVERAL of Canada's leading securities firms have imposed stringent austerity measures, ranging from layoffs to cancellation of a shareholders dinner, in response to the deterioration in business conditions.

RBC Dominion Securities, the country's biggest firm which is 86 per cent owned by Royal Bank of Canada, confirmed yesterday it had ordered a C\$10m (US\$8.9m), or 6 per cent, cut in overheads over the next 12 months.

Directors taking a 7.5 per cent cut in base salaries, and the firm has cancelled two traditionally elegant dinners at this time of year, after the directors' and annual meetings.

Wood Gundy, controlled by

Canadian Imperial Bank of Commerce, is also in the throes of a restructuring which has cut its workforce by more than 20 per cent since it acquired the retail operations of Merrill Lynch Canada earlier this year.

The firm employs about 2,000 people, down from 2,500 last January. Unspecified cutbacks are also under way at Nesbitt Thomson, 75 per cent owned by Bank of Montreal. Nesbitt has been one of the industry's most consistently profitable firms.

Dominion Securities' chief operating officer, Mr Ray Mackay, said yesterday, "Business is difficult and we're trying to tighten our belts as much as possible." DS also plans to sub-let some of its

premises and is looking closely at its communications costs.

The 72 members of the Toronto stock exchange suffered a combined loss of C\$128.9m in the first half of 1990, up from a C\$12m loss a year earlier. Wood Gundy alone lost close to C\$50m in the nine months to July 31. By common consent, the industry's financial performance has deteriorated significantly since then.

Both corporate finance, business and trading volumes have dropped sharply this year. According to the Investment Dealers Association of Canada, common share financings tumbled to C\$551m in the first half of this year, from C\$3.8bn in the previous six months.

## Dow Jones profits fall 41.1%

By Nikhil Tait

DOW JONES, publisher of the Wall Street Journal, has reported a 41.1 per cent fall in third-quarter operating profits, although the decline at the after-tax level was a more modest 17.5 per cent, to \$23.8m or 34 cents a share.

The lower figures were blamed partly on higher interest costs and goodwill amortisation in respect of Telerate, the financial information network of which Dow Jones took full ownership last January.

Together, according to Dow Jones, these factors knocked 11 cents a share off net earnings. However, profits also fell very sharply at the business publications division.

The third-quarter results were scored on revenues of \$408.5m against \$404.1m in the

same period last year, and at the operating level profits reached \$41.9m against \$71.5m.

The smaller reduction at the net profits level was explained by a one-off tax credit, worth \$6.3m or nine cents a share, resulting from the investment in Telerate.

In divisional terms, the information side saw operating profits fall from \$54.5m to \$38m, on revenues of \$185.1m, up from \$175.3m. However, Dow Jones said that the picture was distorted by the inclusion of the total costs of Telerate's electronic foreign exchange dealing system.

Last year, this was being developed by Telerate in conjunction with a 50 per cent partner which has now been bought out. Accordingly, Telerate's share of the losses in 1989 did not fall on Dow Jones' operating results.

Nevertheless, Telerate's other US businesses were affected by the depressed conditions in the financial services industry, although profits growth in Europe and Asia was "strong" during the period.

The business publications division, meanwhile, saw profits fall from \$18.5m to \$7.1m, on revenues of \$163.8m, down from \$170m. Dow Jones said this largely reflected the decline in advertising revenue at the Journal - down 16 per cent. The paper's circulation was some 3 per cent higher than a year earlier.

The community newspaper business operating profits fell 7.4 per cent to \$7.94m.

## Loss of \$26m as Carter Hawley sells subsidiary

By Nikhil Tait

CARTER Hawley Hale, the highly-leveraged Californian department store chain, yesterday coupled news of a \$26m loss after tax and extraordinary items in the year to August 4, with an announcement that it was selling its 26-outlet Thalhimers subsidiary to May Department Stores for \$320m cash.

Carter said the final sale price, subject to closing adjustments which it expected to add a further \$15m to the sum received, would help to pay some \$320m of the group's \$1.7bn debt.

About \$180m of the debt associated with Thalhimers will be paid off, while the remaining \$140m will go to reduce short-term borrowing.

News of the sale pushed Carter Hawley's junk bonds sharply higher, in contrast to the general declines in the market yesterday morning.

The Thalhimers stores are based in Virginia, North Carolina, South Carolina and Tennessee and had sales of around \$445m in 1989. May, which moves into the Carolinas for the first time as a result of the deal, said that it planned to keep the stores' existing name.

The Carter Hawley loss for 1989-90 comes after a particularly poor fourth quarter, when the company saw a net deficit of \$19.5m before extraordinary items, compared with a \$7.3m deficit in the same period a year earlier.

The loss was struck after a Life charge of \$16.7m, compared with a surplus of \$2.7m last time. After extraordinary items, the fourth-quarter loss deepened to \$26.5m.

The full-year loss stood at \$9.5m before extraordinary items and at \$26m after such charges were included. These figures were scored on sales of \$2.86bn while interest charges totalled \$617.8m for the year.

## Procter & Gamble expects net income of \$1.55 per share

By Karen Zenger in New York

PROCTER & Gamble, the big US household products group, yesterday said it expected to report net income of about \$1.55 a share in the first quarter ended September 30.

Mr Edwin Artzt, chairman and chief executive, said volume rose strongly in the three months.

He said: "I would be remiss, however, if I were to leave you with this glowing report and not express some sense of caution and concern over the general condition of the economy, particularly in the US, and of course the uncertainty surrounding the situation in the Middle East."

He added that consumer purchases of goods and services were up only 0.3 per cent in the second quarter of 1990 "although purchases of the kinds of products Procter & Gamble makes have held up better than the overall average".

In the first quarter of last year, the company's net income grew 38 per cent to \$551m, or \$1.65 a share, thanks to volume growth for its range of household and personal care products and a favourable settlement of litigation. Sales in the three months advanced 5.3 per cent to \$5.57bn.

Shares in Procter & Gamble slipped 1 1/4 to \$78 1/4 mid-day yesterday on the New York Stock Exchange.

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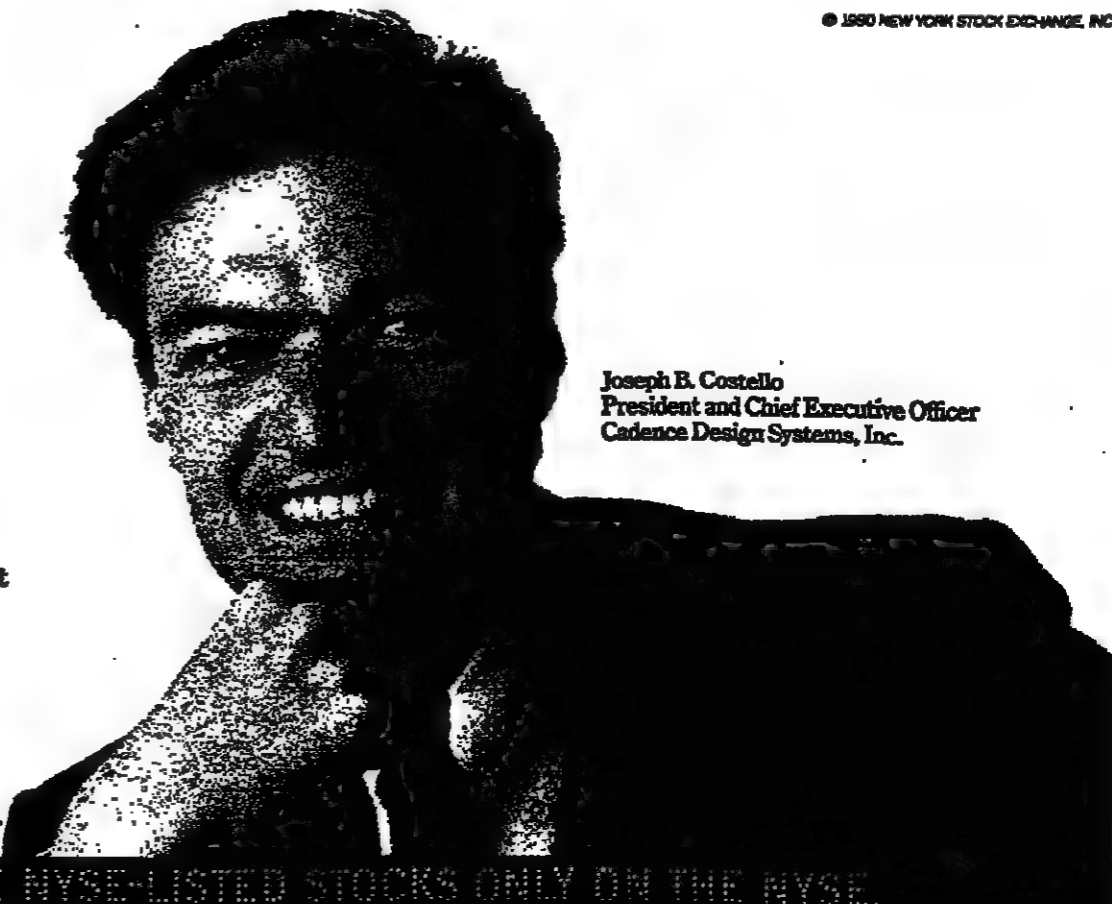
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## INTERNATIONAL COMPANIES AND FINANCE

# Norwegian bank reveals loss of Nkr164m

By Karen Fossell in Oslo

**FOKUS BANK**, Norway's third largest commercial bank, announced yesterday that it had suffered net losses of Nkr164m (\$27m) in the first eight months of this year, against net profits of Nkr60.9m in the same period last year.

The bank's operating profit was nearly halved to Nkr271.9m from Nkr489.5m last year.

However, the bank managed slightly to reduce credit losses to Nkr499m from Nkr498.5m in the first eight months of 1989. Mr Steinar Røed, a senior bank official, said that for the year as a whole the bank expects credit losses in the range of Nkr550m to Nkr600m.

He said the bank's operating profit fell as a result of squeezed credit margins, though operating costs were roughly on the same level as last year at Nkr867.7m for the first eight months of this year.

On September 1, Fokus merged with Trondheim, a medium-sized bank, and from March 1991 will complete a merger with Rogalandbanken, another medium-sized bank, on the west coast of Norway.

Separately, Sparebanken, Norway's biggest savings bank, announced yesterday

that net profits in the first eight months of this year had been halved to Nkr156.5m from Nkr321.2m last year.

Sparebanken was earlier known in Norway as ABC Bank before it merged with four other savings banks, and was known internationally as Union Bank of Norway.

Credit losses in the first eight months fell to Nkr567.8m from Nkr670.6m last year. Group operating profit, before credit losses was reduced to Nkr724.3m from Nkr981.8m in 1989 as a result of lower earnings from securities trading.

The merger with four other savings banks, Sparebanken Buskerud, Vestfold, Oslofjord and Østlandet, was completed on October 1, retroactive to January of this year, at a cost of Nkr30m. Combined assets are estimated at Nkr800m.

The bank has an equity ratio of more than 8 per cent, amongst the highest of Norwegian banks, in line with the Bank for International Settlements requirements.

The bank forecast that for the year as a whole credit losses will be reduced from Nkr950m in 1989, but will be higher than Nkr950m experienced in 1989.

# Ansaldo to go it alone on turbine production

By John Wyles in Rome

**ANSALDO**, Italy's state-owned electrical engineering company, is expected to sign a licensing agreement before the end of the month which will take it into the production of gas turbines.

The decision, announced yesterday by Mr Fabiano Fabiani, managing director of Finmeccanica, Ansaldo's parent company, has been determined by the recent share and assets swap agreement between Fiat and CGE of France and by the breakdown of the joint venture with Asea Brown Boveri (ABB). Finmeccanica initially wanted a global rationalisation agreement with Fiat covering railway equipment, aero engines and gas turbines. This has been substantially pre-empted by the Fiat-CGE deal.

Ansaldo has been left with no option but to launch itself alone into the production of gas turbines to replace its nuclear plant engineering activities. These were run down after Italy's decision three years ago to abandon nuclear energy.

The choice of licence could, however, determine future options. The original plan envisaged the use of ABB technology, but this has been abandoned now that Finmeccanica is trying to unwind two joint ventures with ABB covering transmissions and power generating components. The partners have fallen out over ABB's second thoughts on ceding control of the components venture to Ansaldo.

It is thought that Finmeccanica is still interested in a gas turbine production collaboration with an Italian partner. There are only two possibilities: Nuovo Pignone, part of the ENI group; and Fiat. The former uses General Electric technology and the latter Westinghouse. Given Fiat's reluctance to make joint ventures with the Italian public sector, it is possible Finmeccanica will opt for Nuovo Pignone and General Electric.

After acquiring the technology, Ansaldo would be able to bid for participation in the supply of gas turbines for 16 power stations to be built in the Soviet Union.

# Cash squeeze sorts the shaky from the solid

John Burton on the shake-up in the wake of Sweden's finance company liquidity crisis

The recent liquidity crisis that hit three of Sweden's leading finance companies - Nyckeln, Independent/Infina and Gamlestad - is causing a significant shake-up in the sector, which grew rapidly in the 1980s.

Increasing concerns about the finance companies' sizeable property loans in Sweden and the UK will mean that most of them will pay higher interest on their commercial paper, their primary source of financing. Questions are also being raised about the degree of credit risk awareness in Sweden's relatively new and unsophisticated commercial paper market.



Erik Penser, big shareholder in Gamlestad

Moreover, the crisis represents a setback for Mr Anders Wall, the flamboyant Swedish financier and principal shareholder in Nyckeln. It also affects Fermenta, the previously scandalised antibiotics company that diversified into financial services with its acquisition of Independent/Infina in the last two years.

Swedish finance companies were established in the early 1980s by the country's national banks to avoid strict quotas on lending and provide financing to small companies and individuals. Other independent finance companies, established by large industrial concerns and financial entrepreneurs, followed.

However, the finance companies' last business in 1986 after the credit quotas were scrapped as part of the government's deregulation of capital

markets. Their customers returned to the banks, which offered cheaper loans.

The finance companies also compensated for their lost business by increasing activity in leasing and factoring. However, the introduction of tax reforms in 1990 and 1991 has reduced demand for these services, which were used as tax shelters.

The finance companies also concentrated on credit card operations and financing property deals in Sweden. Lending expanded with the abolition of Sweden's strict foreign exchange controls last year as the finance companies arranged bridge loans to support property speculation by Swedish investors in European markets, primarily London.

The finance companies were able to obtain ample credit

since they paid almost the same interest rates on their commercial paper as blue chip companies and big mortgage institutions did with their better credit ratings.

However, the government expressed concerns about the shaky financial conditions of some finance companies. It introduced new rules last year to strengthen the capital-reserve requirements for them. It also established an authorisation system. This cut the number of finance companies by half, to 150, leaving them, it was believed, in stronger shape.

But fears of a crash in property prices in Sweden and the UK, together with Sweden's deteriorating economy have upset this complacent judgement.

When Nyckeln, Sweden's fourth largest finance company, two weeks ago sharply reduced its 1990 profit forecast from SKr175m (\$31m) to SKr25m to cover possible losses in the London property market by Alibus, one of its prime borrowers, it triggered a crisis in confidence affecting the biggest independent finance companies. Nyckeln, Independent/Infina and Gamlestad could not find buyers for their short-term commercial paper, leading to a severe liquidity squeeze. Trading in shares was suspended for the three finance companies, together with Mr Wall's Beijer Capital and Fermenta, as financial efforts were mounted to strengthen their capital base. A rescue package was

quickly put together for Gamlestad, the third biggest finance company in Sweden, since its main shareholders, Mr Erik Penser and his Nobel Industries, are in a strong financial position. The company received SKr500m and a consortium of six banks guaranteed short-term financing.

Independent/Infina, the country's largest finance company, was strengthened with a SKr200m capital gain through the sale of its Finax consumer credit company to Wass Insurance, and a SKr400m injection from Fermenta. On Monday, it also announced that it was selling its loss-making stock brokerage subsidiary, Consensus, to Ostgöta Enskilda Banken.

Independent/Infina, which reported a SKr25m loss for the first eight months of 1990, was designed to play a key role in plans to revive Fermenta, which was at the centre of Sweden's worst post-war business scandal under its former owner, Mr Refast El-Sayed. After Fermenta was taken over in late 1988 by Industrivärden, a holding company affiliated with Svenska Handelsbanken, its new owners announced they would switch the company's focus from biotechnology to financial services, which now accounts for half of turnover.

Nyckeln has encountered the most difficulties in solving its troubles, with the company placed in temporary receivership until the beginning of December. Beijer Capital, the

principal shareholder in Nyckeln, has been forced to sell most of its assets to save Nyckeln.

Beijer Capital Financial Services, the nucleus of Beijer Capital, was sold to the Finnish investment company Sponn for an estimated SKr150m. Beijer Capital also disposed of its 28 per cent voting stake in the Nordstrom & Thulin shipping company, and a 25 per cent stake in paper and investment concern Munksjö Invest, and a majority of its stock portfolio amid a weak market.

Beijer's assets now largely consist of a 31 per cent holding in Nyckeln, in addition to its remaining stock portfolio.

Beijer was placed on the Stockholm bourse's watchlist after trading resumed in its shares on Thursday, as was Nyckeln.

Nyckeln's problems come at a bad time for Mr Wall, who also must finance his leveraged buy-out last year of Beijer Industries, the other half of his empire.

Bank-affiliated finance companies, such as Skandinaviska Enskilda Banken's FinansSkaniska and Handelsbanken's Svenska Finans, should emerge as the biggest winners from the crisis since investors are confident they enjoy firm backing. Independent finance companies will face tougher times as Standard & Poor downgrades their rating to "speculative investing" status as investors abandon risky commercial paper for safer state and blue-chip ones.

# Restructuring costs blamed for heavy Procordia fall

By John Burton

**PROCORDIA**, the Swedish state-affiliated food and pharmaceutical group, yesterday reported a 56 per cent drop in profits after financial items of SKr2.18bn during the corresponding period last year and an operating profit of SKr1.68bn.

The profits are pro-forma because of Procordia's recent takeover of the Pharmacia pharmaceuticals group and the Provender food business from Volvo, the Swedish vehicle and aerospace group.

Restructuring costs of SKr1.2bn were blamed for the lower earnings reported. Volvo and the Swedish state each have a 42.5 per cent voting stake in Procordia as a result

of the takeovers. The companies comprising the new Procordia reported total profits after financial items of SKr2.18bn during the corresponding period last year and an operating profit of SKr1.68bn.

The enlarged Procordia said the operating profit for this year's eight-month period declined by 60 per cent to SKr795m, while sales increased by 1 per cent to SKr24bn.

Procordia predicted that operating profit for the year will amount to SKr2bn, compared with the 1989 pro-forma result of SKr2.5bn.

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# Bergesen advances 28%

By Karen Fossell

**BERGESEN**, Norway's leading bulk shipowner, lifted operating profit before depreciation, in the first eight months of this year to Nkr655m (\$107m) from Nkr510m last year.

Operating profit rose from Nkr240m to Nkr380m in the period. A substantial profit on the sale of shares and a halving of net interest expenses contributed to an increase in pre-tax profits to Nkr831m from Nkr531m.

During the year the market value of Bergesen's vessels declined to Nkr8.3bn from Nkr9.2bn as a result of lower

dollar exchange rates and a 15 per cent fall in the value of dry cargo vessels.

Operating profit for shipping operations rose to Nkr655m in the period, from Nkr510m last year. "The conflict between Iraq and Kuwait has resulted in somewhat lower earnings for the nine crude oil tankers operating in the spot market... tanker rates plummeted in August... since the end of August, rates have climbed to about \$15,000 per day for [our] turbine tankers operating in the spot market," Bergesen explained.

# Nedlloyd sees deficit for year

By Karen Fossell

**NEDLLOYD**, the Dutch energy and transport company, took investors by surprise, changing a previously issued profit warning to a forecast of a loss for the group in 1990, AP-DJ reports.

Nedlloyd did not specify how big a loss it expected. Yesterday its shares, which were suspended earlier in the day, fell 16.9 to 13.7.

The company plans to cut its workforce in the Netherlands by 420, and reduce its workforce abroad.

Nedlloyd said the negative trends behind its profit warning in August had intensified.

# Kone lifts pre-tax profits

By Enrique Tessieri in Helsinki

**KONE**, the lifts and crane-making group, reported an increase in its pre-tax profits during the first eight months of this year to FM306.1m (\$48.8m) from FM285.4m a year earlier.

Operating income before depreciation also rose to FM505.9m from FM437.8m. Consolidated net sales grew by 17 per cent to FM4,778m.

Kone, one of the few large Finnish companies to register an increase in pre-tax profits this year, estimates sales will rise to FM8bn in 1990 against FM7,056m in 1989.

Pre-tax profits are also expected to exceed last year's FM526m.

The lifts division saw its eight-month sales rise 22.3 per cent to FM43.33bn, while crane sales rose 7.5 per cent to FM785.5m.

MacGregor-Navire, the group's cargo access equipment arm, reported a 2.5 per cent rise in sales to FM688.5m.

New orders for the group during the January-August period rose 14.4 per cent to FM4,780m. Earnings per share for the eight months rose to FM3.70 from FM3.10.

This announcement appears as a matter of record only.

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### NET INCOME OF FF2 BILLION FOR THE FIRST HALF YEAR AND AN INCREASE OF 16% IN CASH FLOW

Net income has continued at a high level in the first half of 1990 and amounts to FF 2 019 million.

Cash flow has increased by 16% over the first half of 1989. The key figures from the group's consolidated financial statements are as follows:

(In millions of French Francs)	First half	
	1990	1989
Net Sales	34 082	33 209
Depreciation and provisions	(2 176)	(2 218)
Operating income	4 557	4 750
Interest expense, net	(614)	(672)
Reorganisation and other costs	(127)	(284)
Income before tax and before results	4 044	3 916
On the sale of non-current assets	(176)	95
Results on sale of non-current assets	(1 447)	(1 576)
Provision for income taxes		
Net income from consolidated companies	2 334	2 382
Net income	2 019	2 005
Resources from operations (cash flow)	4 577	3 960
Capital expenditure on plant and equipment	2 287	2 833
Investment acquisitions	2 285	3 386

Sales amount to FF 34,1 billion against FF 33,2 billion for the same period last year, an increase of 2.6%. On a comparable structure basis in French francs they are stable. They have been affected by the fall of over 10% in the average rate of the US dollar and the pound sterling against the French franc between the corresponding periods. By the short term effects of the collar plan in Brazil which should diminish during the second half and by the tightening of prices in some sectors. On the other hand they benefited from the good level of activity in the French and German markets.

The analysis of results by industrial activity shows a further progression for the containers and industrial ceramics divisions. The continuation of the aggregate performances of the insulation division, a slight decline in paper-wood, fibre-reinforcements and also in flat glass which had a particularly dynamic first half in 1989. Results have fallen in two divisions: building materials because of the importance of South America to the division and pipes which has been affected by the loss arising on the sale of the subsidiary Sadefa.

These results are after deduction of the depreciation charge of FF 1 971 million against FF 1 612 million at June 30, 1989 and the charge for provisions of FF 205 million compared to FF 606 million for the corresponding period last year. Dividend income amounts to FF 229 million against FF 123 million in the first half of 1989.

The review of results by geographical area shows a further increase in the results in France which now represents 41% of the cash flow and net income of the group. A significant increase in the results from other European countries, especially Germany, and a fall in results from North and South America.

Capital expenditure continued at a high level and is largely covered by cash flow, which represents 13.4% of sales against 11.9% at June 30, 1989.

Investment acquisitions are less than in the first half of 1989. They include most of the acquisition of solagis in the United Kingdom. The acquisition of Norton company is not included, as it took place in the second half of this year.

Net income is heavily affected by the sale of non-current assets which led to an exceptional loss of FF 176 million (against a profit of FF 95 million in the corresponding period last year) because of the negative impact of the disposal of Sadefa, a subsidiary of Pont-A-Mousson SA.

Total net equity of the group has increased by FF 1.2 billion from FF 30.6 billion at December 31, 1989 to FF 31.8 billion at June 30, 1990.

At the same time net debt has gone from FF 10 to FF 10.8 billion.

Compagnie de Saint-Gobain, the parent company, recorded a trading result of FF 690 million for the first half year compared to FF 468 million for the same period in 1989.

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## NEWS IN BRIEF

### Date set for Mizrahi Bank bids

THE ISRAELI government will invite investors to bid next week for United Mizrahi Bank, the country's fourth largest banking group with total assets in 1989 of more than \$7bn, Reuters reports from Tel Aviv. MI Holdings, the state company in charge of privatizing Israel's banks, said applicants must submit proposals by December 20.

But the Gulf crisis and fears of war have made it difficult to attract foreign investors. "The timing is so bad, it is killing us," MI Holdings said.

Bond Corporation International (BCI), the Hong Kong investment group owned by the corporate empire of Mr Stanley Ho and formerly controlled by Bond Corporation of Australia, yesterday posted an 87 per cent fall in after-tax profit to HK\$350m (US\$33.7m) for the year to June 30 from HK\$1.94bn a year earlier. AP-DJ reports from Hong Kong.

Earnings per share also dropped by 87 per cent to 19.5 cents from HK\$1.45, while turnover jumped 34 per cent to HK\$1.89bn from HK\$1.41bn. The fall in earnings was due to the disposal of most of its main assets, including its interest in HK-TVB and the Bond Centre, a big local office complex.

Seiyu, a leading Japanese supermarket operator, yesterday unveiled a 12.6 per cent advance in unconsolidated pre-tax earnings for the first half to August 31 to Y8.21bn (\$45m) from Y5.52bn the year before, AP-DJ reports from Tokyo.

Net profits surged 76.5 per cent to Y5.16bn or Y27.91 a share, from Y2.92bn or Y17.38. Seiyu said the gain in net profits resulted mostly from sales of fixed assets which boosted extraordinary gains by 26 per cent to Y5.85bn from Y1.52bn.

Jardine Strategic yesterday reported an unaudited net asset value of HK\$22.77 a share as at September 30, down from HK\$25.52 a month earlier, Reuters reports from Hong Kong.

## INTERNATIONAL COMPANIES AND FINANCE

### Itoman counters 'speculator' tag

Robert Thomson on a Japanese group's troubles in the property market

THE executives of Itoman & Co, the Japanese trading house, have spent the last few days trying to convince the Japanese press that the company is indeed a trading house and not, as it has been portrayed, a real estate speculator with an embarrassing exposure in an increasingly soft property market.

Unfortunately for the Osaka-based company, founded in 1888 as a fabric import shop, the problems and the need for explanations keep on surfacing, and it has become increasingly seen as a symbol of the real estate indulgences of corporate Japan.

The company has been linked to the fall of Mr Ichiro Isoda, the Sumitomo Bank chairman who resigned for an unrelated reason - alleged illegal lending by a branch manager - but who has been criticised for his willingness to fund the real estate ambitions of Itoman.

Itoman sees no connection, but the company has extensive links with Sumitomo Bank. Mr Yoshihiko Kawamura, Itoman's president, was a managing director at the bank and is an old friend of Mr Isoda, while 18 of the company's 47 executives have worked at Sumitomo.

More embarrassing yesterday was the front page treatment given in the Japanese press to a letter purportedly written by Itoman staff to the

Ministry of Finance banking bureau alleging that the company had embellished profits with fancy accounting and complaining about management policy.

Itoman officials confirmed that such a letter had been received by the ministry, but one commented: "I can't believe that Itoman employees would write a letter like that." He said that the company remained strong, had no problems with outstanding debts, and expected profits this year to be on target.

But the company has just announced that it will reduce its real estate-related loans and investments by Y350bn (\$2.6bn) to Y500bn by the end of the fiscal year next March. About Y50bn in condominiums and other properties will be sold off by the parent company, while property sales by, and the recovery of loans from, affiliates will make up the remainder.

Sumitomo Bank has also been told by the Ministry of Finance to examine its exposure to Itoman.

The trading house said yesterday that loans from the bank alone totalled Y180bn, but could not give a figure for loans from Sumitomo affiliates. Itoman's consolidated borrowings total about Y1,300bn.

Much of the explaining in recent days has been done by Mr Yoshiaki Kaneko, the manager of Itoman's public rela-

tions office, just back from a visit to San Diego, where he attended the ground-breaking ceremony for a luxury home development that will be, he boasts, "bigger than Beverly Hills".

Yet, Mr Kaneko was most determined to emphasise that Itoman is first and foremost a trading company. "People are saying that we are speculators. We are not speculators. We are a trading house and 40 per cent of our business is still in textiles."

It is the recent surge in real estate investments that has raised concerns, with the growing signs that Japan's boom is over and that a slump, if not a plunge, in prices is a strong possibility.

Then there are related concerns about companies with heavy borrowings as interest rates rise.

Until a few weeks ago, the company was citing the large real estate portfolio as a sign of the successful diversification from textiles, which made up 90 per cent of the business when Mr Kawamura arrived from Sumitomo Bank in 1975 to overhaul a then troubled company.

Real estate investment began in about 1980, but, as Mr Kaneko explains, "it was not until 1985 that we started to invest in real estate on a large scale". In the year ended March 1989, sales in the "real

estate, leisure and others" category rose from Y84.1bn to Y138.1bn, a surge that accompanied the boom in real estate prices, particularly in the Osaka area.

Trade in foodstuffs accounted for about 22 per cent of sales last year at Y27.8bn, and the company has investments in Australian beef, a chain of 400 restaurants within Japan, and chicken processing facilities in China and Thailand, where yakitori, the kebab-like chicken sticks, are prepared for Japanese restaurants.

The other significant trading area is metals, machinery and chemicals, which comprises about 18 per cent of sales, and includes items such as industrial sewing machines, motorcycles and biotechnology, as well as wave-making pools and sunbath salons for resorts.

It is the development of resorts and golf clubs that has drawn attention to the company. Golf club memberships, something of a barometer of Japanese real estate trends, have been declining in value this year, but Mr Kaneko sees no problem in selling large chunks of real estate in the present conditions.

"We have no concern. There is still a strong demand for resorts and other buildings. Anyway, when we bought these properties, the prices were much less than they are now," he said.

### Australia plans company crime clampdown

By Kevin Brown in Sydney

THE Australian government yesterday announced plans to improve co-operation between local and overseas regulatory authorities as part of a clampdown on corporate crime.

Mr Michael Duffy, the federal Attorney General, said the government would legislate to close a loophole preventing Australian corporate agencies from carrying out investigations for on behalf of overseas regulators.

Mr Duffy said co-operation between international agencies was essential because of the rapid internationalisation of corporate activity and secur-

ties markets. "Nowadays no country can hope to stamp out corporate malpractices without knowing about the offshore activities of those involved," Mr Duffy said.

Under existing law, the National Companies and Securities Commission, the corporate watchdog, and the Trade Practices Commission, which monitors market dominance, can only investigate suspected breaches of Australian law.

The proposed legislation will give both organisations the freedom to use their existing investigatory powers to inquire into suspected breaches of foreign corporate law by Australian companies.

The government is also expected to announce later this week that it plans to broaden the definition of insider trading and increase penalties to include fines of up to A\$500,000 (\$416,000) and prison sentences of up to five years.

The decision is in line with the recommendations of a

House of Representatives inquiry which concluded insider trading was widespread in Australia, with little risk of successful prosecutions.

The committee's key recommendation was that convictions should be made easier to obtain by dropping the existing requirement for the prosecution to prove a connection between a person accused of insider trading and the company which was the source of the information.

Under the law, an offence would be committed if the person using the information knew or reasonably ought to have known that it should not be used.

The government's move to tighten the law follows widespread complaints from leading businessmen about the damage caused to Australia's international image by the activities of a small number of high profile entrepreneurs.

The changing climate has also prompted the Australian

Stock Exchange to take a harder line with problem companies, and a debate is going on in the accounting profession on ways of improving the development of accounting standards.

However, the first big step towards tougher regulation will come next year when the Australian Securities Commission (ASC), a federal organisation with strengthened powers and increased resources, will take over from the NSC as the main corporate watchdog.

Mr Tony Hartnell, ASC chairman, said yesterday that millions of dollars of lost corporate money could have been saved if the toughest regulations now being introduced had been available to regulators five years ago.

Earlier this week, the ASC released draft legislation intended to increase the financial accountability of company directors and improve the regulation of inter-company loans and other transactions.

### ConsMurch cuts costs to survive

By Philip Gawth in Johannesburg

CONSOLIDATED Murchison, the Anglovaal subsidiary which produces about 12 per cent of the world's antimony, has announced measures to ensure its survival against prices weakened by oversupply and discounting by Chinese producers.

Drastic measures, revealed by Mr Michael Hawarden, chairman, have been forced on the Eastern Transvaal mine which only had R3.9m (\$1.66m) retained income - against R14.5m the previous year - available after providing for a 1989-90 deficit of R10.8m, with the possibility of further operational losses. Since June the mine has cut production by 25 per cent and relocated or retrenched 351 workers.

A general salary or wage

freeze has been imposed and capital spending for the next two years will be limited to essential items. Johannesburg Consolidated Investments (JCI), which manages the mine, has agreed to defer fees due to it.

The effects of a soft antimony price and a month-long strike saw ConsMurch record a R8.4m after-tax loss in the year to June against a R10.2m profit. With R4.2m capital expenditure added to this, the total deficit for the year was R10.8m.

Mr Hawarden warns any deterioration in the market could require the mine be placed on a care-and-maintenance basis. This would stop the work of scientists currently trying to find an arsenic-anti-

mony separation process which could help keep the mine in production.

Mr Hawarden notes that with the antimony price unlikely to improve materially in the short term, "the only hope of survival for the company is to increase gold recovery significantly and to produce a value-enhanced antimony product". Gold is recovered as a by-product of processing the antimony ore.

Mr Hawarden said technology, developed by JCI, could enhance gold recovery and produce crude antimony oxide from which the arsenic had been removed.

Success with the new process would enable the company to realise higher prices for stockpiled residues.

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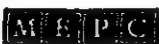
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## INTERNATIONAL CAPITAL MARKETS

## UK bonds decline sharply on weakness in sterling

By Simon London in London and Karen Zagor in New York

UK GOVERNMENT bonds fell back sharply at the longer end of the yield curve yesterday, against the background of a weak pound and a reassertion of underlying economic uncertainty.

The benchmark 11% per cent gilt, maturing in 2008/07, closed the day down 1/2 point at 102 1/2 for a yield of 11.14 per cent. However, the shorter end of the market continued to outperform the long end, with some overseas buying reported. This suggests that the anticipated flattening of the yield curve is beginning to take effect.

On the foreign exchange markets, sterling fell back in overnight dealing at one point, falling below the psychologically important DM3.00 level. In yesterday's trading some of the losses were retrieved and sterling closed at around DM3.00, down two pence from Monday's close.

Market sentiment on the underlying economic position also remains bearish before retail price index figures for September, which are announced on Friday and are expected to be poor. Retail sales figures announced next Monday may sound a more positive note, but analysts suggest that yields could soon return to the levels before sterling's entry into the exchange rate mechanism was announced on Friday.

## GOVERNMENT BONDS

There was general relief in the German government bond market that yesterday's auction of new 9 per cent 10-year federal paper was well received.

The cash market was steady, with the benchmark 8% per cent 10-year bond closing at 96.25 for a yield of 8.08 per cent. In the futures market hedging of holdings of new paper caused a small sell-off, with the key December futures contract closing at 80.88, against 81.30 on Monday.

The Bundesbank accepted offers for DM4.27bn of new paper at an average yield of 8.01 per cent, adding to the DM3.5bn issued on Monday through a consortium of banks.

Together with DM127bn of exchange rate in thought to favour the Japanese economy.

Higher oil prices dealt a further blow to Treasuries. At mid-session, the benchmark 30-year bond had dropped 1% point to 98 1/2, yielding 8.92 per cent. Losses were more moderate at the short end of the yield curve, where the two year note was down 1/2 point for a yield of 7.9 per cent.

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## Canadian bank issue fails to woo investors

By Bernard Simon in Toronto

INVESTORS appear to have given a cold shoulder to a National Bank of Canada rights issue designed to bolster the bank's capital after big writedowns on exposure to Campean Corp, the embattled real estate and retailing group.

With the C\$85.5m issue due to close late yesterday afternoon, the Montreal-based bank said that only a small proportion of the issue had been subscribed by yesterday morning. National's shares were trading at C\$7.88 on the Toronto stock exchange yesterday, compared with the offer price of C\$8, and the bank was recommending itself to falling well short of the C\$85.5m target.

A National official said yesterday that failure to attract the full amount would not create a problem for the bank. Even allowing for the writedowns on Campean loans, the bank's total capital ratio is above the 7.3 per cent target due to be reached by the end of this year under guidelines set by the superintendent of financial institutions.

National, with assets of C\$36.5bn, said last month that it was raising its loan loss provisions by C\$200m to cover a loan made to Campean Corp founder Robert Campean.

Half the extra provision was accounted for at the end of the third quarter, pushing National's earnings down to C\$22m from C\$65.5m a year earlier. The other C\$40m will be reflected in the fourth-quarter accounts.

National has set aside an additional C\$20m to cover other loan losses stemming from the deteriorating North American economy.

The bank's shares were trading at C\$8.63 when the rights issue was announced last month. The present share price of C\$7.88 is less than half the peak of C\$18.33 reached in the past year.

The office of the superintendent of financial institutions (OSFI), which regulates Canadian banks, sent a team of senior retired bankers to review National's assets in the wake of the Campean problems.

According to Mr Michael Mackenzie, the superintendent, "we're comfortable with its portfolio".

Erlich Bober, the investment banking and broker-dealer unit of Erlich Bober Financial, is to raise the bank's capital and the negative impact of tax reform on the municipal finance industry. Reuter reports from New York.

The company said resources were more than adequate to fulfil open securities commitments.

## Poor reply to Singapore broker issue

SINGAPORE stockbroker firm Kay Hian James Capel's public issue of 8.15m shares at 35 per cent of the company — has been 19.5 per cent subscribed, Reuter reports from Singapore.

The company, owned 49 per cent by James Capel Group, a unit of Hong Kong and Shanghai Banking Corp, said it received applications for a total of 16.25m shares, including 8.25m shares subscribed for by the staff.

Kay Hian is the second local company seeking listing on the main board to receive such a poor response from the public in the past decade. In 1981, an issue by Van Der Horst received 36 per cent subscription.

The Kay Hian issue was designed to raise about \$800m (US\$31m) to finance the company's development of stockbroking in the Singapore area.

Share issues by brokers Kim Eng Holdings and G.K. Goh, listed earlier this year, were subscribed 784 times and 168 times respectively. Since July, however, the Singapore stock market has fallen by more than 30 per cent.

● The \$800m private placement for Wing Tai Holdings, a garment manufacturer and property group, has been abandoned by its underwriter Smith New Court, the UK stockbroker. Wing Tai's share price has fallen below the \$2.39 placing price.

The shares were being issued to pay for the purchase of two US-based clothing wholesale and buying companies.

Correction

Spanish bank

BANCO Bilbao Vizcaya has been quoted on the London Stock Exchange since 1983. It is thus not seeking a London listing, as was suggested yesterday.

BENCHMARK GOVERNMENT BONDS									
	Coupon	Red Date	Price	Change	Yield	Week ago	Month ago	Year ago	
UK GILTS									
13.500 02/92	102.28	-10/32	11.79	12.52	12.58				
9.000 03/00	99.17	-21/32	11.36	11.75	11.81				
9.000 10/00	94.28	-25/32	10.55	11.11	11.25				
US TREASURY									
6.750 06/90	99.25	-23/32	8.79	8.85	8.85				
6.750 09/90	98.05	-49/32	8.53	8.53	8.58				
JAPAN									
No 119 4.800 8/90	93.0720	-0.273	8.12	8.24	8.28				
No 129 6.400 03/90	92.5382	-0.201	7.77	7.82	7.91				
GERMANY									
6.000 08/90	96.3500	-0.050	0.07	0.00	8.98				
FRANCE									
STAN 9.000 11/95	95.0168	+0.008	10.29	10.31	10.39				
OAT 8.500 03/00	98.3800	-0.170	10.48	10.47	10.41				
CANADA									
10.500 07/00	96.4000	-0.025	11.28	11.04	10.81				
NETHERLANDS									
9.000 07/00	96.8800	-0.240	9.21	9.23	9.12				
AUSTRALIA									
13.000 07/00	97.5436	+0.000	13.43	13.50	13.50				

London closing, "denotes New York morning session. Yields: Local market standard. Prices: US, UK in \$2nds, others in decimal.

Technical Data/ATLAS Price Sources

bank for market regulation, this means that the government raised its target of DM300m from the issue.

In August, the Bundesbank rejected all bids in the auction of 8% per cent Unity Fund paper. Analysts suggest that the higher coupon on this latest federal issue was sufficient to attract investors into the market.

However, the government has a funding requirement of around DM300m for the remainder of the year. Analysts suggest that yields will have to rise further for this target to be achieved. Another two longer maturity federal issues are expected before the year end, with the rest of the funds raised through five-year bonds and short-term paper.

Yields will also rise, they say, as investors switch funds from the bond market and into French government and Dutch government paper, where yields are far higher than in justified on the basis of economic fundamentals.

With RECENT bullish sentiment in Japanese government bonds eased slightly as the monetary authorities intervened to prevent further strengthening of the yen against the dollar. The benchmark No 119 issue closed on a yield of 8.05 per cent, compared with 8.08 at Monday's close.

The dollar weakened further against the yen overnight, breaking through the 130 barrier before the Bank of Japan intervened to stabilise the situation. A strong dollar/dollar exchange rate is thought to favour the Japanese economy.

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# 1990 Interim Results

	First Half	Year
	1990	1989
Net sales (in FF millions)	6,105	10,470
Net income (in FF millions)	1,539	921
Net earnings per share (in FF)	243.34	141
	1989	1988
	108.52	

Net sales for the first half of 1990 amounted to FF 6,105 million, down 41.7% from the figure for the same 1989 period. This decline is a result of Chargeurs' withdrawal from the Air Transport sector combined with the lower sales generated by the Textile sector. Net income amounted to FF 1,539 million, an increase of 67.1%, and included net capital gains of FF 1,545 million on the sale of 54.6% of the capital of UTA.



## CHARGEURS

### COMMERZBANK

#### SUBSCRIPTION OFFER FOR PROFIT SHARING CERTIFICATES WITH CONVERSION RIGHTS

By virtue of the authority conferred upon it by the Annual General Meeting of the Company held on 28th May, 1988 the Board of Management has decided to issue DM500,000,000 nominal Profit Sharing Certificates ("Convertible Certificates") carrying rights of conversion from 1991 to 1996 into shares of Commerzbank AG which are entitled to distribution as from 1st November, 1990 (i.e. one each for the financial year 1990). The Convertible Certificates are being offered at par by way of rights to the Company's shareholders on the basis of:

One DM200 nominal Convertible Certificate for every eleven shares of DM50 nominal stock.

The Convertible Certificates are being offered on the terms of the Company's announcement dated October, 1989. Copies of the announcement with an English translation, are available on request at the office of the London Subscription Agent, S.G. Warburg & Co. Ltd.

It is not intended to seek quotation for the Convertible Certificates on the Stock Exchange, London, however, the subscription rights will be traded under Rule 305A during the period 18th October, 1990 to 23rd October, 1990 inclusive.

#### PROCEDURE IN THE UNITED KINGDOM

Holders in the United Kingdom wishing to take up rights must lodge their certificates for tendering Square No. 14 no later than 3.00p.m. 24th October, 1990.

Senior Shares Certificate - Coupon No. 81 and apply during the subscription period 18th October, 1990 to 23rd October, 1990 inclusive, at the office of the London Subscription Agent.

S.G. Warburg & Co. Ltd.  
Paying Agency,  
2 Finsbury Avenue,  
London EC2M 2FA

between 10.00a.m. and 3.00p.m. where lodgement forms are obtainable.

Holders of London Deposit Certificates wishing to take up rights must lodge their certificates for tendering Square No. 14 no later than 3.00p.m. 24th October, 1990.

Payment must be made in full on application. Temporary Receipts will be issued.

Holders wishing to make payment in Sterling should agree the applicable rate of exchange with the London Subscription Agent.

Holders of rights entitlements may instruct the London Subscription Agent to buy or sell rights, on their behalf to round their entitlements but in order to do so their forms must be lodged with S.G. Warburg & Co. Ltd. by 3.00p.m. 24th October, 1990.

Subscribers will be advised at a later date when the Convertible Certificates are available to be exchanged for Temporary Receipts.

S.G. Warburg & Co. Ltd.  
London Subscription Agent and Depository

10th October, 1990

### ABBEY GLOBAL INVESTMENT FUND

Registered Office:  
Centre Mercure, 7th Floor  
41 Avenue de la Case  
L-1611 Luxembourg  
R C Luxembourg B 26141

#### NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

An Annual General Meeting of the Shareholders of Abbey Global Investment Fund will be held at Centre Mercure, 7th Floor, 41 Avenue de la Case, L-1611 Luxembourg at 11am on 19 October 1990 for the purpose of considering and voting upon the following matters:

Agenda of the Annual General Meeting of shareholders:

- 1) Submission of the Reports of the Board of Directors and of the Statutory Auditor for the year ending 30 June 1990.
- 2) Approval of the Statement of Net Assets as at 30 June 1990 and Statement of Operations for the year ending 30 June 1990.
- 3) To approve distributions sufficient to maintain the Funds UK Distributor Status for the year ending 30 June 1990, and, in the case of the following sub-funds to secure the Funds Distributor Status for each of the years ended 30 June 1988 and 1989:  
International Income and Growth Fund  
Pacific Growth Fund  
UK Growth Fund  
Reserve Fund
- 4) Grant Discharge to the Board of Directors and to the Statutory Auditor for the performance of their duties for the year ended 30 June 1990.
- 5) Re-appoint the co-opted Director of Mr C.M. Wincoson.
- 6) Re-election of the present Directors.
- 7) Re-election of the Statutory Auditor.
- 8) Re-appoint the payment of Directors fees for the year ending 30 June 1990.

Voting:  
The Resolutions may be passed without a quorum, by a simple majority of the votes cast thereon at the Meeting.

Voting Arrangements:  
In order to vote at the Meeting:  
The holders of bearer shares must deposit their shares not later than 16 October 1990, either at the registered office of the Fund, or with any bank or financial institution acceptable to the Fund, and the relative Deposit Receipts (which may be obtained from the registered office of the Fund) must be forwarded to the registered office of the Fund to arrive not later than 16 October 1990. The shares so deposited will remain blocked until the day after the Meeting or any adjournment thereof.

The holders of registered shares need not deposit their certificates but can be present in person or represented by a duly appointed proxy.

Shareholders who cannot attend the meeting in person are invited to send a duly completed and signed proxy form to the registered office to arrive not later than 16 October 1990.  
Proxy forms will be sent to registered shareholders with a copy of this Notice and can also be obtained from the registered office.


The Board of Directors  
26 September

### GPA Investments B.V.

#### US\$ 30,000,000 Guaranteed Floating Rate Notes due 1995

Guaranteed by GPA Group plc

In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the interest period from October 10, 1990 to April 10, 1991 the Notes will carry an interest rate of 8.6375% per annum. The interest amount payable on the relevant interest payment date, April 10, 1991 will be US\$ 4,366.74 per Note of US\$ 100,000 denomination.

The Agent Bank  
 KREDITBANK  
S.A. LUXEMBOURGEOISE

### U.S. \$200,000,000 Hydro-Québec

#### Floating Rate Notes, Series FV, Due May 2005

Interest Period	8th May 1990
	8th November 1990
Interest Amount per U.S. \$1	

## INTERNATIONAL CAPITAL MARKETS

## Citicorp credit card deal undermined by weak dollar

By Tracy Corrigan

ATTEMPTS to sell more than \$1bn of Eurodollar bonds founded yesterday, as investors shun dollar securities.

Secondary market Eurodollar spreads have widened as much as 30 basis points during the last few weeks, eroding dealers' confidence in their ability to assess value.

Against this background, the pricing of two new Eurodollar bonds was bound to be tricky.

In the event, the concept of consensus pricing, in an environment where volatility virtually precludes agreement, proved almost unworkable.

Citicorp's \$500m offering of bonds backed by credit card receivables was battered by conflicting opinions, as well as by a falling US Treasury market.

The price on the bonds was announced on Monday as 85 basis points to 90 basis points above the five-year US Treasury, but this proved unacceptable to most underwriters.

The deal was structured as a Eurobond and targeted at European retail investors, as both Citicorp and UBS Phillips & Drew felt there was some demand for bearer bonds.

Other houses failed to identify such an investor base, and perception of the deal was not helped by the launch of a credit card-backed deal for Sears in the US market at a wider spread.

Yesterday, the indicated spread of the Citicorp deal was moved out by 10 basis points, before the deal was finally priced to yield 99 basis points above the five-year Treasury.

Even at this level, underwriters found few takers, and lead manager UBS Phillips & Drew was left with two-thirds of the deal.

Further, several underwriters were said to have been allotted no bonds. UBS declined to comment on these aspects of the offering.

Three weeks ago, ECCT's 9 per cent bonds due 1994 were quoted at 34 basis points over the curve. This widened to a 62 basis point spread on Monday and jumped 10 more basis points yesterday, when a bid could be found.

"The reaction to the wider spread on the new deal was simply to widen the spread on outstanding paper further," one dealer said.

As Mr Charles Wainhouse, vice president of Citicorp Credit Services, observed, "it is not obvious where value is, for us, underwriters or investors".

Toyota Motor Finance's

\$200m four-year deal, launched on Tuesday, also fell victim to overall market weakness, but generally was seen to be better supported than the ECCT deal.

The launch spread of 60.7 basis points widened to 65 basis points as spreads gapped wider, even though the financing, in floating rate terms, represents a level of Libor flat for a triple-A rated borrower.

Three weeks ago, Toyota Motor Credit was able to bring a three-year deal at 39 basis points over the curve.

Elsewhere, new Japanese equity-linked deals again met adequate demand, buoyed by the value they offer relative to warrants in the secondary market, which are substantially out of the money.

Westpac Banking of Australia is to absorb its investment banking unit, Bill Acceptance Corp. Westpac said that "in the current deregulated market, it is no longer appropriate to operate a separate merchant bank".

Bill Acceptance has assets of A\$1.2bn, shareholders' funds of A\$50m and is profitable. The move will complete the integration with the bank of all Westpac group merchant banking operations in Australia and New Zealand.

Westpac attempted to sell Bill Acceptance, but could not find a buyer.

## Japan plans to ease rules on domestic bond issues

By Stefan Wagstyl in Tokyo

THE JAPANESE Ministry of Finance is planning to relax rules on domestic corporate bond issues, in order to increase companies' access to the capital markets.

Japanese industry will welcome the changes, which will most likely come into effect next month, since they would coincide with a tightening squeeze on credit in Japan, particularly bank loans.

However, the ministry's move is motivated by its long-standing policy of liberalising financial markets and not by any short-term plan to increase sources of funds for industry.

However, the rule changes are not in themselves expected to induce companies which issue bonds in the London-based Eurobond market to switch to Tokyo since some cumbersome restrictions will remain in place, notably the requirement for a company to have both a securities company and a bank to handle an issue.

The proposals mean that the number of companies able to issue bonds and warrant bonds without pledging collateral will increase from 600 to more than 1,000.

The plan is to widen greatly the use of credit ratings and abolish many of the present requirements to meet ministry guidelines on the size of net assets and other criteria. This will shift the onus of assessing credit risk from the ministry to investors, as already happens in international markets.

The ministry plans to allow companies with a credit rating of A or better to issue bonds and warrant bonds without collateral. As for convertible issues, the ministry will allow companies with a BBB rating or better to make them, as long as their assets exceed ¥20bn.

In the nine months to the end of September, a total of 560 Japanese companies were involved in mergers and acquisitions, according to a study by Yamachi Securities. The number of transactions was 15.5 per cent up on 1989. The value of officially announced transactions in the nine months was ¥1.67tn.

## Regulators discuss financial giants

By Katharine Campbell in Frankfurt

BANKING regulators, gathering today in Frankfurt for their biennial two-day meeting, will for the first time formally address the supervision of financial conglomerates.

The definitions of "banks", "insurance companies" and other financial service entities have become increasingly anachronistic as institutions expand their product range and stray into each other's territory.

The sixth International Conference of Banking Supervisors, which this year attracts 260 delegates from 100 countries, is designed to air issues arising from the work of the Basel committee of international banking supervisors.

The meeting two years ago in Tokyo was largely concerned with harmonising capital adequacy standards.

Today's discussion will focus on the supervisory consequences of the growth of financial conglomerates, in which banking, securities operations, insurance and other activities such as leasing are gathered under one roof.

The impetus for this trend stems partly from deregulation, as the barriers between banking and securities business fall, notably in the US and Japan.

In countries operating under the universal banking system, which include most of those in continental Europe, changing savings patterns have forced institutions to broaden their product range to stay competitive, leading banks into insurance and vice versa.

The regulators believe that the risks incurred by such conglomerates are greater than those taken by the separate

institutions. The authorities find it increasingly hard to regulate effectively firms with complicated and diffuse international structures. Also, there is the danger that problems in one area will spill over and infect the entire group.

Mr Johann Wilhelm Gaddum, director of the Bundesbank, in charge of supervisory issues, has suggested that one possible approach was to develop the English model of functional regulation according to the main thrust of each institution's business. But concrete proposals are unlikely to emerge from this week's talks.

A second topic, on tomorrow's agenda, addresses plans for an extension of the "Cooke committee" capital adequacy guidelines to market (as well as credit) risk. The Basel group has been working for more than a year on ways of measuring

interest rate, foreign exchange and equity-related risks.

Mr Gaddum noted that "considerable progress" had been made, and that the results would be discussed among the participants. There is conflict between the proponents of the universal banking system (notably the Germans) who fear they will lose if bank guidelines are more stringent than those for brokerage houses, and advocates of the Anglo-Saxon model, in which banking and securities functions are still largely separate.

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## NEW INTERNATIONAL BOND ISSUES

Borrower	Amount (\$)	Coupon %	Price	Maturity	Yield	Stock market
US DOLLARS						
US Corp Card Tel. 1990-2000	845	9 1/4	100	1990	10 1/4	US Phillips & Drew
Toyota Motor Fin. NV(a)	240	8	101.425	1994	1 1/8	Nomura Int.
Citizens Watch Co. (a)	200	8 1/2	100	1994	2 1/4	Nikko Sec. (Europe)
Banda Chemical Ind. (a)	100	8 1/2	100	1994	1 1/8	Nomura Int.
Mitsubishi Corp. (a)	100	8 1/2	100	1994	2 1/4	Nomura Int.
Financ. Cr. Nat. (a)	30	8	101.50	1998	1 1/4	LTCS Int.
Shinwa Electric (a)	110	8	100	1994	1 1/8	Mitsubishi Int.
EURO DOLLARS						
Unilever (a)	75	8 1/4	100	1994	2 1/4	Daiwa Euro GmbH
Mitsubishi Corp. (a)	75	8 1/4	100	1994	2 1/4	Nikko Sec. (Deutschl.)
SWISS FRANKS						
Parsons Ind. (a) (a)	70	8 1/2	100	1998	-	Bank Ltd
N.K. Corp. (a)	80	8 1/2	100	1998	-	Handelsbank Nordwest
Mitsubishi Electric (a)	40	8 1/2	100	1998	-	Yamachi Sec. (Switz)
Nakano Tokai R. Way (a)	10	8	100 1/2	1997	-	Daiichi Kangyo Bank
EURO POUNDS						
British Petroleum	100	8 1/4	100 1/2	2000	2 1/8	Creditanstalt-Bankverein

Source: Private placement, convertible, floating rate notes, 4 1/2% equity warrants, 4 1/2% term, 4 1/2% non-callable, by coupon was indicated at 5 1/4%. Exercise premium fixed at 2.54%, c) Put option 31/3/93 at 10% to yield 8.55%, d) Put option 31/3/93 at 10% to yield 8.57%, e) Put option 31/3/93 at 10% to yield 8.54%, f) Put option 31/3/93 at 10% to yield 8.54%, g) Asset backed issue, credit enhancement provided by UBS Ltd. of Credit, fixed rate issue price, h) Step-down deal, coupon pays 5.5% until March '91, then 5.5% until March '92, then 5.5% until March '93, then 5.5% until March '94, non-callable.

## LONDON MARKET STATISTICS

RISKS AND FALLS YESTERDAY			
	Rise	Fall	Same
British Funds	3	80	8
Corporations, Dominion and Foreign Bonds	163	4	11
Financial	65	339	316
Oil	22	20	47
Commodities	20	36	106
Others	61	39	106
Totals	349	1,199	1,351

## LONDON RECENT ISSUES

Issue	Amount	Price	Yield	Rating	Underwriter
ABN AMRO 100	100	101.425	8	A	Nomura Int.
ABN AMRO 200	200	101.425	8	A	Nomura Int.
ABN AMRO 300	300	101.425	8	A	Nomura Int.
ABN AMRO 400	400	101.425	8	A	Nomura Int.
ABN AMRO 500	500	101.425	8	A	Nomura Int.
ABN AMRO 600	600	101.425	8	A	Nomura Int.
ABN AMRO 700	700	101.425	8	A	Nomura Int.
ABN AMRO 800	800	101.425	8	A	Nomura Int.
ABN AMRO 900	900	101.425	8	A	Nomura Int.
ABN AMRO 1000	1000	101.425	8	A	Nomura Int.

## FIXED INTEREST STOCKS

Issue	Amount	Price	Yield	Rating	Underwriter
ABN AMRO 100	100	101.425	8	A	Nomura Int.
ABN AMRO 200	200	101.425	8	A	Nomura Int.
ABN AMRO 300	300	101.425	8	A	Nomura Int.
ABN AMRO 400	400	101.425	8	A	Nomura Int.
ABN AMRO 500	500	101.425	8	A	Nomura Int.
ABN AMRO 600	600	101.425	8	A	Nomura Int.
ABN AMRO 700	700	101.425	8	A	Nomura Int.
ABN AMRO 800	800	101.425	8	A	Nomura Int.
ABN AMRO 900	900	101.425	8	A	Nomura Int.
ABN AMRO 1000	1000	101.425	8	A	Nomura Int.

## RIGHTS OFFERS

Issue	Amount	Price	Yield	Rating	Underwriter
ABN AMRO 100	100	101.425	8	A	Nomura Int.
ABN AMRO 200	200	101.425	8	A	Nomura Int.
ABN AMRO 300	300	101.425	8	A	Nomura Int.
ABN AMRO 400	400	101.425	8	A	Nomura Int.
ABN AMRO 500	500	101.425	8	A	Nomura Int.
ABN AMRO 600	600	101.425	8	A	Nomura Int.
ABN AMRO 700	700	101.425	8	A	Nomura Int.
ABN AMRO 800	800	101.425	8	A	Nomura Int.
ABN AMRO 900	900	101.425	8	A	Nomura Int.
ABN AMRO 1000	1000	101.425	8	A	Nomura Int.

## TRADITIONAL OFFERS

Issue	Amount	Price	Yield	Rating	Underwriter
ABN AMRO 100	100	101.425	8	A	Nomura Int.
ABN AMRO 200	200	101.425	8	A	Nomura Int.
ABN AMRO 300	300	101.425	8	A	Nomura Int.
ABN AMRO 400	400	101.425	8	A	Nomura Int.
ABN AMRO 500	500	101.425	8	A	Nomura Int.
ABN AMRO 600	600	101.425	8	A	Nomura Int.
ABN AMRO 700	700	101.425	8	A	Nomura Int.
ABN AMRO 800	800	101.425	8	A	Nomura Int.
ABN AMRO 900	900	101.425	8	A	Nomura Int.
ABN AMRO 1000	1000	101.425	8	A	Nomura Int.

## LONDON TRADED OPTIONS

THE OPTIMISM in equity futures after the recent 1 point cut in UK interest rates had all but evaporated by the close of trading yesterday. Meanwhile, in traded options the rise in the oil price boosted activity in BP.

Futures dealers said the initial euphoria after the cut in rates and sterling's entry into the exchange rate mechanism of the European Monetary System had been replaced by worries over the yen-dollar exchange rate and the subsequent rise in oil prices.

There was also concern that the sudden rise in prices on Friday had hit some futures traders particularly hard. Operators who had sold short were forced to buy

back at much higher levels and there was widespread speculation that at least one trader had suffered heavy losses.

The December FT-SE 100 index contract closed at 2,300, down 88 points on the day and 180 below its high on the previous session. The December FT-SE 100 index bar contract's premium over the cash index narrowed slightly to 88 points. Analysts estimate that December should be approximately 80 points above the spot index, reflecting the cost of finance and future dividend payments.

In the traded options market, turnover fell back from the previous session's inflated levels. Dealing appeared to have been

direction and business was evenly divided between calls and puts. A total of 43,462 contracts changed hands, compared with 72,080 in the previous session. Yesterday's total was divided between 22,532 calls and 21,740 puts.

BP options were the busiest stock options, trading 8,472 contracts, reflecting the rise in oil prices. In the FT-SE 100 index options activity was weighted towards puts. The FT-SE 100 options turned over 11,579 lots, just more than half that of the previous session. Calls accounted for 4,147 contracts and puts 7,782.

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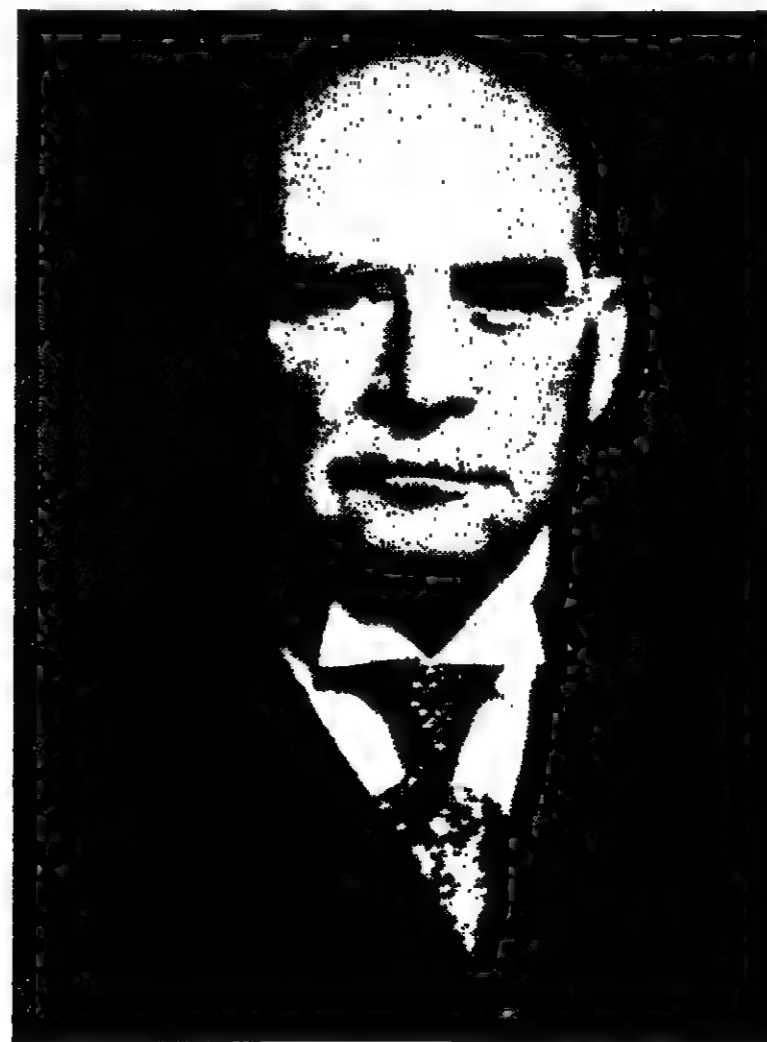
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# Why the "new" thinking in M&A isn't new to us.

Now that some highly leveraged transactions of the last decade are under scrutiny, there has suddenly been a call for a "return to the fundamentals" of "sound business principles" in M&A and of "relationship banking." At J.P. Morgan, however, we have no such need to get back to basics. We never left them. We will recommend a merger, acquisition, sale, or divestiture only when it is based on a sound analysis of true debt capacity and complements your long-term business strategy in a way that truly benefits your shareholders. For in our 150 years of experience, we've learned that placing our clients' interests before our own is the best way to be successful in the long run. For truly objective advice in M&A, turn to one firm where sound strategic thinking is never out of fashion.



Over half a century ago, J.P. Morgan, Jr., said, "The clients' belief in the integrity of our advice is our best possession."

## JPMorgan

## UK COMPANY NEWS

ILG contract loss will not affect company, says Davies & Newman  
Shares in Dan Air parent fall 130p

By Paul Abrahams

SHARES in Davies & Newman, the parent company of Dan Air, collapsed yesterday from 203p to 79p in thin trading.

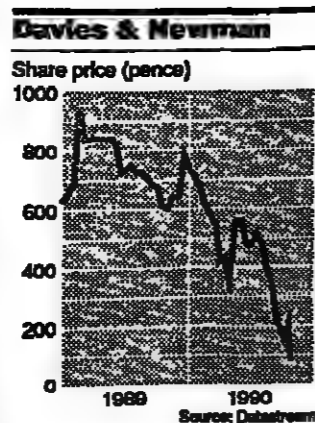
At the beginning of the year they were trading at 77p.

Yesterday's fall followed an announcement by International Leisure Group, the private company that owns Dan Air, one of the UK's leading tour operators, that it would not be leasing aircraft from Dan Air next summer.

ILG, chaired by Mr Harry Goodman, said it was no longer willing to use fuel-inefficient aircraft at a time when aviation fuel prices were climbing. It claimed the contract was worth about £30m.

Davies & Newman, which operates the second largest charter operation in the UK, yesterday disputed ILG's announcement.

It said the potential deal, which would have been for the lease of two or three aircraft next summer compared with six last year, was worth less than the figure claimed by ILG.



The company added that the airline had offered ILG its most modern Boeing 737-400 and 437-800 aircraft.

The loss of the contract would not significantly affect the company's performance, claimed Davies & Newman. It said it had already placed 80 per cent of its fleet for next summer with leading and reliable tour operators including



Harry Goodman - unwilling to use 'fuel-inefficient' aircraft

Thomson, Owners Abroad and Airtrics.

It did not anticipate having difficulties placing the remainder.

"We are oversubscribed and cannot meet demand," the company said.

Davies & Newman explained the fall in the company's stock yesterday by pointing out that the shares were thinly traded

and were closely held for the most part in family trusts.

Other shareholders include Virgin, the records and retail group run by Mr Richard Branson, which has a 3.35 stake in the company.

Analysts last night said the rise of more than £1.5 in oil prices had also done little to help the Davies & Newman's share price.

The troubled company has been looking for a partner for a number of months. It is thought that American Airlines and Delta, the US airline, and All Nippon Airlines of Japan have been interested in acquiring a stake in Dan Air.

However, there are questions about whether the company can transfer ownership of its valuable take-off and landing slots to a non-UK carrier.

Davies & Newman made a loss of £3.24m last year, against a profit of £9.88m in 1988. It recently announced that its engineering business, which has a turnover of about £50m a year, was up for sale.

## Scantronic shares drop after profit warning

By Andrew Hill

SCANTRONIC Holdings, the manufacturer and distributor of security products, yesterday warned that pre-tax profits for 1990-91 would not improve on last year's figures.

The group's shares fell 38 per cent, from 114p to 73p, and shares in Automated Security (Holdings), which owns 20 per cent of Scantronic, also suffered. The security company's share price slipped 20p to 181p in the weak market.

Spending cuts by local authorities, linked to the introduction of the community charge, led to a first-half slump in sales of Scantronic's emergency monitoring systems for elderly and infirm people. Two important customers also reduced stocks following a change in their trading policy and the group lost money in August.

Mr Chris Brookes, Scantronic's chief executive, said that profits before tax for the six months to September 30, due to be announced next month, would be lower than in the equivalent period. Second-half profits would be about the same as last year, he said, but the group would not match the 25.5m it made before tax in 1989-90. Analysts had forecast an increase to £28m in the current year.

Mr Brookes said yesterday: "It's a hiccup which we have come through and addressed." Apart from the difficulties in the UK, he added that the company had not grown as fast as it would have wished in Europe and had closed its Scandinavian and Italian sales offices.

The group tried to take the sting out of the profit warning by announcing that it would declare an interim dividend of 0.70p for the first half, against 0.715p paid in the equivalent period.

Although Scantronic's pre-tax profits will be down for the first half, there will be an extraordinary gain on the sale of the group's European wholesale distribution activities to Gardiner Group. The disposal, for up to £11m in cash and loan stock, has now been completed, reducing Scantronic's gearing to about 35 per cent.

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Mr JM Butler, the chairman, said that the group's metal processing subsidiary had been affected by the withdrawal from the market of its largest customer. He added: "This, coupled with significant costs associated with revitalising Abtex and ABC Powder, will adversely affect the group's results for the year ended September 30, 1990."

Mr Butler expected that the final dividend would be maintained.

## First Tech profits gloom

By Andrew Bolger

First Technology, the automotive, fire, security and safety systems group, yesterday warned that it was likely to show a substantial profit reduction in its current year to next April, compared with last year.

The timing of the warning, which came only minutes before the market closed, led to some confusion among market makers.

One securities house marked the price down to 180p, but the shares closed at 220p, up 5p on the day.

Last year the company made pre-tax profits of £2.71m on turnover of £41.69m.

## NOTICE TO THE HOLDERS OF WARRANTS TO SUBSCRIBE FOR SHARES OF COMMON STOCK OF FUJI PHOTO FILM CO., LTD.

Issued in conjunction with U.S. \$400,000,000 3 1/2 percent Bonds with Warrants due 1992

For more information, please refer to the Prospectus and the Warrant and Section 4(A) of the Instrument dated 27th June, 1988 under which the above bonds with warrants were issued, notice is hereby given as follows:

On 26th September, 1990, The Board of Directors of the Company resolved to make a free distribution of shares of its common stock to shareholders of record as of 20th October, 1990 (Japan time), at the rate of 0.10 share for each share held.

2. Accordingly, the subscription price will be adjusted effective immediately after each record date. The subscription price in effect prior to each adjustment is Yen 3,407.50 per share of common stock, and the adjusted subscription price is Yen 3,142.50 per share of common stock.

3. Effective date: 21st October, 1990.

FUJI PHOTO FILM CO., LTD.

By The Bank of Tokyo Trust Company as Fiscal Agent

Dated October 30, 1990

## Lep issues warning to ADT not to get too closely involved

By Andrew Hill

LEP GROUP, the security and distribution company, yesterday issued a stern warning to ADT to stay at arm's length after the cash-rich electronic security and vehicle auction group, increased its stake from 21.8 per cent to 27.3 per cent.

ADT picked up 7.5m shares after a Lep director, Mr Bill Berkley, sold a 5.5 per cent holding in the New York market. Mr Berkley is co-founder of National Guardian Corporation, the Lep subsidiary which is one of ADT's principal rivals in the US security market.

The Bermuda-registered group has almost doubled its stake in Lep in the past week, but refused to comment yesterday on its intentions.

The rapid increase fuelled speculation that ADT, which has more than £1m of cash and liquid securities in its balance sheet, might launch a full bid.

Lep's shares rose 6p to 173p in yesterday's depressed market. At that price the UK company, which announced a 21 per cent increase in interim profits five days ago, is worth about £237m.

The Lep statement said there was "no scope for Lep to have a relationship with ADT other than as a pure arm's length investor". It added: "Neither the intrinsic nor the strategic value of [Lep's] businesses and assets has in any way been fully reflected in the recent prices at which ADT has been buying Lep's shares."

Mr John East, Lep's finance director, said yesterday that

ADT had told Lep at an earlier stage that it was "an active investor but a passive shareholder" in the company.

"What we are saying now is that they cannot become active shareholders - in other words, they can't get closely involved with the running of the company," he said.

East said Lep had realised that Mr Berkley needed to sell most of his 6.2 per cent stake to finance a £20m equity injection for Finevest Foods, a US company of which he is chairman.

Mr Berkley acquired the shares when Lep completed the National Guardian acquisition two years ago but has been unable to sell them until now because of a standstill agreement.



Mike Smith, left, chief executive of Laura Ashley, with Andrew Higginson, finance director

LAURA ASHLEY, the clothing and furnishings retailer, yesterday reported slim pre-tax profits of £317,000 for the 26 weeks to July 26 against an outcome of £6.8m in the comparable half.

The company's sales, which were buoyed up by the inclusion of the US Revman's results, were strongly ahead at £173.8m (£134.18m).

Earnings per share came at 0.02p (2.08p) but the company considered it prudent not to declare an interim dividend.

COMMENT

Regrettable though it is for 1,500 of its employees, Laura Ashley has decided to rationalise with a vengeance. The company has effectively ended its ambitions to remain a vertically-integrated retailer and will now be quite content to source its products from wherever it can find the best prices.

The pruning of peripheral businesses and the emphasis on balance sheet management and cost reduction will be to the company's long-term benefit. And the link-up with the Asda Group will bolster Laura Ashley's financial position and

help improve its trading prospects. Analysts having nothing but praise for all these developments, but just wish they had happened several years ago. For this year it seems unlikely that Laura Ashley will register much advance in profits over the first half and it is a matter of some doubt whether it will be in a strong enough position to pay a dividend. Further out - providing it can find an effective chief executive to take the business forward - the company will begin to recover ground but it looks a long and grinding process.

## QS boosts profits by 22%

QS, the South of England based family clothing retailer, yesterday reported a 22 per cent increase in first half pre-tax profits, confounding critics who said the March flotation on the main market was ill-timed.

Pre-tax profits rose to £3.61m on sales up 19 per cent at £21.2m, in the six months ended July 27. The interim dividend is unchanged at 1.31p.

Mr Nigel Tibbles, chairman, said that as interest rates rose people who regard themselves as more affluent had increasingly turned to QS's 66 stores and away from more up-market retailers.

The company, which until three years ago sold second hand clothes, says its most

expensive item leaves change out of £13.

Over the period, QS increased its sales area by 16.5 per cent, mainly through the acquisition of properties with long term leases. Sales in new and existing stores grew 2.3 per cent per square foot.

COMMENT

The first QS figures since its placement last March seem to confirm the group's optimism that despite 16 per cent interest rate growth, demand for cheap children's and women's clothing would remain buoyant. As long as the company pursues organic growth by offering a small product range at low margins, its conservative accounting policies and

careful cost control look like a winning formula. If there is a weakness it is in how QS is going to expand more quickly. Although its cash pot is large for a company with market capitalisation of £39m, this could easily be eroded by the purchase of a handful of freeholds. Efforts to grow by acquiring stores in new markets by raising money through new paper could then be hampered by the Berry family which controls more than 50 per cent of QS stock and might be reluctant to see a dilution of its stake. Nevertheless, QS is a sound defensive stock in uncertain economic times and deserves its 12.5 times multiple on earnings estimated for the year at 58.6m or 11p a share.

## German side limits fall at BLP to £1.24m

Reduced pre-tax profits of £468,000 compared with £1.7m were announced by BLP Group, the USM-quoted maker of wood laminates and mouldings, for the six months ended June 30.

The result was an improvement, however, on the second half last year when £394,000 was achieved.

Mr Malcolm Cohen, chairman, said the profits were almost entirely attributable to a very good performance in Germany by the Berg group, acquired in May 1988. Poor market conditions had continued in the UK and in the US the position was deteriorating.

The interim dividend is cut to 0.25p (1.5p) payable from earnings per 10p share of 0.6p (4.4p).

Turnover improved to £30.29m (£19.05m). Tax took £28,000 (£568,000) and there was an extraordinary £253,000 credit.

## Gulf Res buys Aviva stake for £8.8m

By Richard Gourlay

GULF RESOURCES and Chemical Corp, the New York-quoted company, has paid \$8.8m for the 17 per cent stake in Aviva Petroleum, the London-quoted independent oil company, controlled by the family trust of Mr Lawrence Hockley-Sweeney, Aviva's chairman.

The sale at 19.75p per share follows pressure on Ferris Investments, Mr Hockley-Sweeney's family trust, from its

bankers. Mr Hockley-Sweeney, who will remain chairman of Aviva, has been granted a one-year option by Gulf to repurchase half the shares at 29p per share.

Mr Hockley-Sweeney said that Gulf, in which the property company Inoco has a 37 per cent holding, was buying the Ferris stake on the basis of Aviva's oil and gas reserves in the Gulf of Mexico.

The company has proven reserves of 60m cu ft of gas and 2.6m barrels of crude oil which together produce the equivalent of 2,500 barrels per day. Speculation over the prospect of drilling in Colombia has produced wild swings in the Aviva share price, which closed yesterday down 15p at a low for the year of 15.5p.

On Monday, Aviva announced net losses for the first half of 1990 of \$828,000 (profit \$287,000).

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On Monday, Aviva announced net losses for the first half of 1990 of \$828,000 (profit \$287,000).

## S&amp;N offers to buy back Eurobond issue

By Simon London

SCOTTISH & Newcastle, the brewing and leisure group, yesterday announced an offer to buy back its outstanding £50m 9 1/2 per cent Eurobond issue, which matures in 2008.

The company will buy the bonds back through Warburg Securities until the close of trading on Friday. Warburg will purchase the bonds at the price at which they yield 1.5

per cent over the UK government 9 per cent bond maturing in 2008. The price for each transaction will be set at the time it is agreed to a maximum price of 92.

If the whole of the outstanding issue is bought in at the maximum offer price, S&N will spend £41m on the operation. Yesterday the bonds were trading at 77 1/2, yielding 12.8 per

cent or 1.9 per cent over the government bond.

With Eurobond issues trading at a substantial discount to face value, many UK companies have chosen to buy back their bonds. Last week Mounthigh, the property group, made an open offer to buy back £575m (£38m) of Swiss bonds that were trading at a large discount and a high yield.

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## THE HIGH COURT

IN THE MATTER OF:

AN INTERESTED APPLICATION TO THE HIGH COURT UNDER SECTION 13 OF THE ASSURANCE COMPANIES ACT 1908 AND THE INSURANCE ACTS 1982-89 BY THE DIRECTORS OF IRISH LIFE ASSURANCE plc

## NOTICE

TAKE NOTICE that it is the intention of the Directors of the said Irish Life Assurance plc ("ILAP") a subsidiary of Irish Life plc ("HOLDCO") having its principal place of business in Ireland at Irish Life Centre, Lower Abbey Street, Dublin 1, to make application to the High Court to sanction the transfer of the undertaking of ILAP including all its property, assets, rights and powers (with the exception of a cash sum of £250,000,000) and its liabilities, debts and obligations to Irish Life Assurance (Guernsey) Limited ("IRISHGU") a wholly owned subsidiary of HOLDCO. HOLDCO has acquired in excess of 98.9% of the issued share capital of ILAP and has served notice under Section 204 of the Companies Act 1982 in respect of the remaining shares.

AND FURTHER TAKE NOTICE that copies of the address ("the Notice") whereby the said transfer is to be effected, the Affidavits in relation thereto, the Transfer Agreement, the Petition presented to the High Court on 2nd October 1990 and the Affidavits of the Petitioners David Kingston which it is intended to use on the hearing of the said application are available for the inspection of any shareholder or policyholder of ILAP at the office of ILAP at Irish Life Centre, Lower Abbey Street, Dublin 1 between the hours of 9.30 a.m. and 5.00 p.m. on each working day between the date hereof and 2nd November, 1990.

AND TAKE FURTHER NOTICE that the said Petition is to be heard by the High Court of Ireland at 2.00 p.m. on 2nd November, 1990.

Any person who wishes to be heard on the hearing of the said Petition should serve on the Petitioners' Solicitors, WILLIAM PITT, Fletchers House, 15, Fleet Street, London EC4A 3DF, a notice in writing (together with any affidavit which is to be relied on) no later than 5.00 p.m. on 1st November, 1990 of their intention to appear on the said Petition and should indicate to the said Solicitors in such notice whether such person or persons support or oppose the said Petition and in the event of those opposing the Petition their grounds for so doing.

Dated this 30th day of October, 1990

WILLIAM PITT  
Solicitors for the Petitioners,  
Fletchers House,  
15, Fleet Street,  
London EC4A 3DF,  
Dublin 2.

## LUXEMBOURG

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The publication date of this survey has been changed to

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## UK COMPANY NEWS

## Putting steel into international ambitions

Charles Leadbeater and Peter Bruce look at British Steel's relative failure in Europe

BRITISH STEEL'S Port Talbot plant in South Wales had a visitor recently from Volkswagen. For a day he crawled over the plant, inquiring into every aspect of production. That evening Port Talbot was certified as an approved supplier to the German car manufacturer.

Volkswagen is not alone in approving of British Steel's costs and quality. British Steel's exports to Germany have risen by 61 per cent in the last year, evidence of its potential as Europe's lowest cost producer.

But as yet that potential has not been translated into a strong position in continental European steel markets. Last year the UK took almost 70 per cent of its output. About 17 per cent of production went to other EC countries, giving it less than 5 per cent of the continental market.

British Steel's strategy to expand its manufacturing and sales on the continent appeared to be back on track yesterday with a joint venture with Aristrain, the Spanish structural steel maker. The deal almost collapsed last month when Aristrain's family owners pulled out of a complex arrangement in which British



Sir Robert Scholey, chairman of British Steel

will realise its international ambitions. After earning record profits from booming markets in recent years, British Steel has a substantial pot to fund acquisitions. However, expanding internationally will require a sharp change of gear for British Steel. Its transformation into one of the most profitable steel companies in the world has been built on the determined rationalisation of its UK production base. Its future expansion will require a clearer sense of strategy and a change of management culture to exploit international opportunities.

The rest of Europe is not standing still. Cockerill Sambre of Belgium and Arbed of Luxembourg recently announced talks to merge their flat products divisions, a move which almost certainly will eventually reduce their costs. More ominously for British Steel, Usinor-Sacilor, the

French state-owned group and its main European competitor, is becoming increasingly central to the structure of the European industry. It has a stronger position in Germany, through its acquisition of Sarrstahl, than British Steel, which recently acquired the Duisburg division of Klockner-Werke, which is considered the outsider of the German industry.

In the last month Usinor-Sacilor opened a hot strip-rolling mill in Turkey, in a joint venture with Iva, the Italian state-owned producer. But most significantly the French group announced plans last week for a joint venture with Arbed to manufacture and market long products, such as structural steels for the construction industry.

This dwarfs British Steel's recent deals in Spain and Germany.

The Usinor-Sacilor/Arbed joint venture would produce 2.3m tonnes, against British

Steel's 1.7m tonnes.

The venture is designed to head off British Steel, which has targeted structural steel as the product which will lead its European expansion.

Usinor-Sacilor already dominates in other areas such as stainless steel. The steel tube market is suffering from excess production capacity and in other areas such as flat products British Steel is highly efficient but not predominant. Structural steel is central to British Steel's strategy.

The web of cross-border deals involving its competitors is not the only problem British Steel faces. There are two others: one financial and the other political.

The financial issue is that as the steel market softens, so steel producers will come under financial pressure, the price of steel-making assets should fall and there should be more opportunities for acquisitions. But the softening market will also make it difficult for even British Steel to make much money from older continental plants in need of investment.

The political problems are more intractable. With weaker markets, many European steel companies are facing a return to losses.

To the weaker companies which are yet to pick themselves up from the crisis of the last decade, British Steel appears as a fierce competitor and hungry predator, which, if unrestrained, will force them to accelerate restructuring.

The Spanish government is also trying to find ways to improve co-operation between Enxidea and AHV. Although the state only has a minority stake in AHV, which is publicly quoted, the official Banco de Crédito Industrial, has enough convertible debt outstanding in AHV to take full control.

A measure of the alarm which British Steel's arrival has spread through the Spanish industry is the reaction of the much stronger German industry to increasing imports from the UK. Mr Rupprecht Vondran, the German steel industry association president, warned the industry to be watchful of the threat from the "British giant".

British Steel may be a giant. It has yet to prove it will not be a muscle-bound giant.

S

## Goodman examiner asks for more time

By Kieran Cooke in Dublin

A NEW chapter in the saga of Goodman International, Europe's biggest beef processor and exporter, opens today as the examiner appointed by the Dublin High Court applies for more time to unravel the group's financial affairs.

Goodman International has debts of more than £245m to 30 banks and is under the protection of the Irish courts until the end of the year.

Mr Peter Fitzpatrick, the examiner, was to have presented a report assessing the viability of Goodman International to the court today. He will argue that much of his time has been taken up with ensuring the continuation of Goodman International's core cattle slaughtering and processing during the peak "killing season".

Mr Fitzpatrick will also point out that Goodman International had delayed presenting accounts of more than 20 companies now under the court's control. Mr Fitzpatrick has already been granted one extension of 21 days for his report.

Goodman's creditors are becoming anxious about the present state of affairs. This week Westdeutsche Landesbank (Ireland) gained permission from the Dublin High Court to start proceedings after the submission of the examiner's report to recover funds loaned to Goodman.

This is the first clear sign that banks involved with Goodman - so far acting in unison - are now fighting for control of funds to meet at least some of their outstanding loans.

In an affidavit read to the court, WLL said that it loaned Goodman International

£231.4m for "working capital needs". WLL accuses Goodman International of acting unlawfully by breaching the terms of its loan facility in using part of that loan for other purposes.

WLL says Goodman International had come to a separate £90m loan agreement with a syndicate led by Banque Nationale de Paris. That facility was used by Goodman International to purchase £98m worth of shares in Berisford International, the UK commodities, sugar and property conglomerate.

WLL says that under the terms of its loan with BNP, Goodman International was obliged, in the event of a drop in share price, to provide alternative cash security.

Contrary to the terms of the WLL loan agreement, Goodman International used £12m of the WLL loan to meet its

obligations to BNP. WLL says that BNP "knew or ought to have known" that such funds could not have come from Goodman International and that they were for other "specific purposes".

WLL says that, given the "parlous state" of Goodman International, the sale of Goodman's 13 per cent stake in Berisford "may be imminent". WLL says that Goodman has lodged £63m with BNP to meet its loan obligations to the French bank in regard to Berisford.

WLL says that if the Berisford shares are sold, then BNP will use those funds - including the WLL £12m - to help repay the syndicate of banks involved in the £90m loan.

"If and when this occurs, the ability of WLL to trace £12m will be greatly reduced and made almost impossible", it complained.

## DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
Alexander Workers Int	1.8	Nov 26	1.8	-	4.7
Ashley (Lease) Int	nil	Nov 26	0.85	-	0.85
BUP Group Int	0.25	Nov 26	1.5	-	2
Cranston Int	1.441	Nov 26	1.15	1.94	1.93
HTV Group Int	1.5	Nov 30	1.5	-	7.511
London/Chichester Int	4.176	Nov 19	3.795	-	12.09
MS Canadian Int	0.5	Nov 19	0.5	-	9
OS Int	1.81	Dec 4	2	-	3.5
Savage Group Int	0.5	Dec 12	2	-	2.5
SBU Stores Int	2	Nov 23	1.5	-	6
Walker Greenbank Int	1.2	Nov 23	1	-	2.75

Dividends shown per share net except where otherwise stated. \*Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. ‡USM stock. ‡‡For 15 months to December 31 1989. ‡‡‡For 52 weeks.

## PLASTIC CARDS

The Financial Times proposes to publish this survey on:

28th November 1990

For a full editorial synopsis and advertisement details, please contact:

Jonathan Wallis  
on 071-873 3565

or write to him at:

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FINANCIAL TIMES  
EUROPE'S BUSINESS NEWSPAPER

## Interest and redundancies cut Savage to £51,000

By Jane Fuller

SAVAGE GROUP, the USM-quoted hardware supplier built up with the help of a string of acquisitions, made a pre-tax profit of just £51,000 in the year to June 30, compared with £7.25m the previous year. After taxation of £752,000 the loss per share was 4.8p compared with earnings of 9.1p. The final proposed dividend is being cut to 0.5p, making a total of 10p (3.5p).

Although turnover advanced by 5 per cent to £128.9m, Mr David Stephens, finance director, said that like-for-like volume was down by 7 per cent. Operating profit fell sharply to £5.74m (£5.96m) and this was knocked back further by £1.3m in redundancy and other exceptional costs. About 200 jobs had been cut over 18 months, leaving a total workforce of 2,200, he said.

The remaining £4.52m profit barely covered the interest of £4.57m (£2.58m). "Borrowings were run up in 1988-89 when we did several acquisitions for cash." Debt had been slightly reduced by June this year to £28.8m, giving gearing of 28 per cent.

In the UK, which accounts for 41 per cent of sales, the business with wholesalers and the DIY retail chains was hit by destocking, as demand was undermined by the lack of house moves and the general economic squeeze.

France, contributing 36 per cent of turnover, had also been a disappointment. Apart from falling sales, local employment conditions had made cost-cutting a slow process.

## COMMENT

Savage boasts that it has increased turnover thirteen-fold since 1986, when it joined the USM. It is also worth noting that the pre-tax profit that year was \$1m-plus and the margin a respectable 10 per cent. Since then, it first took advantage of a high share price, which reached 337p, to issue paper to make acquisitions and then continued its pursuit by running up debt. Thankfully the buying spree stopped before 1988-89, but the subsequent attempts to rationalise the business look like too little, too late. The company has reported an improvement in sales volumes in the first quarter of the current year. The sanguine view is that this, coupled with benefits of cost-cutting and better profits from the Continent, will bring in a pre-tax profit of up to £2.5m this year. A more conservative estimate is £2m and the prospective multiple ranges from 8 to 10. Risks remain, particularly bearing in mind the high debt level.

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## THE SHREWSBURY &amp; WEM BREWERY COMPANY, LIMITED

NOTICE IS HEREBY GIVEN that a meeting of the holders of the 4 per cent. Irredeemable First Mortgage Debenture Stock of the above-named Company constituted by an Indenture dated 5 March 1898 between (1) the Company (then and therein called The Shropshire Brewery Company, Limited) and (2) Sir William Bower Forwood and Sir David Radcliffe (as modified by divers instruments supplemental thereto) will be held at the offices of J. Henry Schroder Wagg & Co. Limited at 120 Cheapside, London EC2 on 23 October 1990 at 11.15 a.m. for the purpose of considering and, if thought fit, passing the following Resolution which will be proposed as an Extraordinary Resolution:

## EXTRAORDINARY RESOLUTION

THAT:—

- this meeting of the holders of the 4 per cent. Irredeemable First Mortgage Debenture Stock ("the Stock") of The Shrewsbury & Wem Brewery Company, Limited ("the Company") constituted by an Indenture dated 5 March 1898 between (1) the Company and (2) Sir William Bower Forwood and Sir David Radcliffe (as modified by divers instruments supplemental thereto) ("the Instrument") hereby sanctions the proposals contained in a letter dated 9 October 1990 from the Chairman of the Company to the holders of the Stock and, in accordance therewith, the redemption on or before 31 December 1990 of the whole of the outstanding Stock at £110 per £100 nominal of the Stock together with accrued interest thereon calculated up to and including the date of the redemption;
- the rights of the holders of the Stock against the Company and they are hereby modified and compromised as far as may be necessary to give effect to sub-paragraph (a) of this Resolution whether such rights arise under the provisions of the Instrument or otherwise howsoever;
- upon payment by the Company of the redemption moneys and accrued interest pursuant to and in accordance with sub-paragraph (a) of this Resolution, the Company be released and discharged from all or any further liabilities, restrictions, covenants and obligations of whatsoever nature under the terms of the Instrument or in respect of the Stock; and
- this meeting sanctions any modification or compromise of the rights of the holders of the Stock and of the provisions of the Instrument involved in or necessary to give effect to the proposals set out in the said letter and to give effect to this Resolution.

## BY ORDER OF THE BOARD

D.R. Jack

Secretary

9 October 1990

## REGISTERED OFFICE

P.O. Box No 2  
Wilderspool House  
Warrington  
WA4 6RH

## NOTE:

A Stockholder entitled to vote at the above meeting is entitled to appoint a proxy to attend and vote in his place. To be valid, the Form of Proxy must be delivered to the Company Secretary, The Shrewsbury & Wem Brewery Company, Limited, P.O. Box No 2, Wilderspool House, Warrington WA4 6RH, before the time appointed for holding the meeting. No person may be appointed a proxy who is not a Stockholder or Trustee of the Stock.

This announcement appears as a matter of record only

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September, 1990

**AMERICAN BRANDS, INC.**  
U.S. \$200,000,000  
5% Convertible Debentures  
Due 2005

In accordance with Section 15(e) of the Fiscal Agency Agreement between American Brands, Inc. (the "Company") and Morgan Guaranty Trust Company of New York, Fiscal Agent and Conversion Agent, the Company hereby gives notice that as a result of the two-for-one split of the Company's Common Stock, par value \$3.125 per share ("Common Stock"), in the form of a stock dividend of one share of Common Stock for each issued share of Common Stock (including each treasury share), payable to holders of record of Common Stock on the close of business on October 9, 1990, the Conversion Price (as defined in such Fiscal Agency Agreement) of the above-referenced debentures has been adjusted from \$38.00 per share of Common Stock to \$23.00 per share of such stock.

**AMERICAN BRANDS, INC.**  
October 10, 1990

**AMERICAN BRANDS, INC.**  
U.S. \$200,000,000  
5% Convertible Debentures  
Due 2005

In accordance with Section 15(e) of the Fiscal Agency Agreement between American Brands, Inc. (the "Company") and Morgan Guaranty Trust Company of New York, Fiscal Agent and Conversion Agent, the Company hereby gives notice that as a result of the two-for-one split of the Company's Common Stock, par value \$3.125 per share ("Common Stock"), in the form of a stock dividend of one share of Common Stock for each issued share of Common Stock (including each treasury share), payable to holders of record of Common Stock on the close of business on October 9, 1990, the Conversion Price (as defined in such Fiscal Agency Agreement) of the above-referenced debentures has been adjusted from \$38.00 per share of Common Stock to \$23.00 per share of such stock.

**AMERICAN BRANDS, INC.**  
October 10, 1990

**AMERICAN BRANDS, INC.**  
U.S. \$400,000,000  
7 3/4% Convertible  
Debentures Due 2002

In accordance with Section 14 (b) of the Fiscal Agency Agreement between American Brands, Inc. (the "Company") and Morgan Guaranty Trust Company of New York, Fiscal Agent and Conversion Agent, the Company hereby gives notice that as a result of the two-for-one split of the Company's Common Stock, par value \$3.125 per share ("Common Stock"), in the form of a stock dividend of one share of Common Stock for each issued share of Common Stock (including each treasury share), payable to holders of record of Common Stock on the close of business on October 9, 1990, the Conversion Price (as defined in such Fiscal Agency Agreement) of the above-referenced debentures has been adjusted from \$8.125 per share of Common Stock to \$5.375 per share of such debentures.

**AMERICAN BRANDS, INC.**  
October 10, 1990

## UK COMPANY NEWS

## Royal Ins helps Japanese insurer strengthen UK base

By Richard Lapper

ROYAL INSURANCE is forming a joint venture with Nissan Fire and Marine Insurance Co, one of Japan's ten largest non-life insurance companies. The venture, Nissan Insurance Co Europe, will be capitalised at £13.3m, with the Japanese partner taking a 75 per cent stake.

The move involves the upgrading of Nissan's embryonic operations in London, using Royal's network of sales and claims staff to serve the needs of Japanese multinational clients, such as Nissan's own manufacturing operations and Hitachi, in the UK.

The new venture is in line with Royal's strategy of developing its business in the Pacific rim and could have positive spin-off elsewhere, said Mr Roy Randall, head of corporate affairs.

The two companies have worked together on various

projects since 1975, with Royal servicing Nissan clients in a number of countries.

Royal has also had connections with Dowa Fire and Marine Insurance, a slightly smaller Japanese company, since 1973.

Earlier this year Royal helped Dowa establish an office in New York.

"Our strategy in the Pacific rim area is to get alongside key players and help them where we can," Mr Randall said, adding that the relationship could also help the Liverpool-based company win new business in Europe, as Japanese manufacturing companies increase their investments there.

Links with Dowa helped Royal obtain a licence to write business in Japan itself in 1974, but winning market share has proved difficult. Royal wrote only 0.03 per cent of non-life insurance premiums sold in

1989. Even so it remains the third biggest, and the largest non-US, insurer licensed to do business there.

Although Nissan Fire and Marine Insurance's investment is relatively small, like other recent deals involving Taisho Marine and Fire and Sumi Alliance and Tokyo Marine and Fire Insurance and Commercial Union, it signals long-term Japanese interest in both the UK and European markets.

Tokyo Marine and Fire took a 2.5 per cent stake in Commercial Union in April this year. Taisho Marine and Sumi Alliance signed a co-operation agreement last December.

According to Mr Chris Fountain, analyst with Morgan Stanley, "This is part of a trend whereby Japanese companies are setting up listening posts often with companies with which they have had close links in the past."

## Exchequer Levy rise hits HTV

By Clare Pearson

RISE IN COSTS, static advertising revenue and an increase in the Exchequer Levy payment all helped to cut pre-tax profits at HTV, the franchise holder for Wales and the west of England, to £4.2m in the six months to end-June.

The company, which has changed its year-end from July 31 to December 31, made £4.9m in the six months to July 31, 1990.

At the operating level, television activities made profits of £4.93m (£5.11m) while those of the much smaller commercial division edged higher to £855,000 (£868,000).

Sir Melvyn Rosser, chairman, said: "Despite severe reductions in staff numbers and internal costs, we have had to face television production costs that have risen in line with inflation, no growth in net advertising revenue and a change in the basis of calculating Exchequer Levy that has resulted in an increased tax burden."

If the Exchequer Levy had been applied on the previous year's basis, it would have been £2m lower at £1.8m.

The interim dividend is being held at 1.5p. Earnings per share fell from 4.29p to 3.69p.

Total sales for the television division amounted to £70.03m (£69.05m). Within this, advertising revenue was about static at £49.58m (£49.02m). HTV's share of total revenue for the industry held constant at 6.3 per cent. Turnover from programme sales was down across the board, although there was a particularly sharp slump in overseas sales.

Activities of the commercial division provided an extra £12.93m of sales. There was a £686,000 profit from the sale of land on the company's main studio site outside Cardiff, where a four-store hotel is to be constructed. Reflecting the acquisition of CCA Publications, the company's net interest position turned around from £377,000 receivable to £1.32m payable.

These figures, which look even

less inspiring when you take into account that the 1989 result was depressed by a £2.1m exceptional debit, fall short of analysts' expectations of around 25m or so pre-tax.

True, the outcome owed something to the timing of programme sales and HTV's claim credit for maintaining its share of national advertising - though, owing to its geographic location, revenues never have spiralled along in bullish economic conditions.

The second half will probably be not much better than the first, with the autumn season expected to be flat in advertising revenue terms. So full-year pre-tax profits may be as low as £10m giving a prospective p/e of about 8.5. That is not demanding, nor is it terribly relevant in the context of the looming bidding competition for HTV franchises - the current ones, which expire at the end of 1992, come up for renewal next spring. There is a general feeling that HTV's position is going to be averagely safe, but it is hard to say what competitors may loom out of the Welsh mists.

## Alexandra Workwear up 11% and sheds jobs

By Jane Fuller

ALEXANDRA Workwear, maker and distributor of work clothes, increased interim pre-tax profit by 11 per cent to £4.1m, but also announced that it had shed 200 jobs after installing new handling equipment at its warehouses.

The £655,000 cost of the redundancies (accounting for 70 per cent of the warehouse workers) and closure of the old Bristol site, now replaced by six more specialised units, was included in the figures as an extraordinary item.

The investment had totalled about £4.5m, said Mr Julian Budd, finance director. "We have substituted interest payments for cash," he added.

Interest costs more than trebled to £398,000 (£230,000) and gearing rose from 40 per cent at the year-end to 70 per cent, although he said that was partly because borrowings tended to run at a higher level in the first half.

The £4.1m taxable profit for the 26 weeks to August 18 compared with £3.7m for the corresponding 1989 period. Turnover increased by 13 per cent to £25.1m (£21.6m).

Mr John Prior, chairman and chief executive, said that despite the more difficult economic conditions, trading margins had improved. Profit at that level grew by 27 per cent to £5.06m (£4.06m).

The group, which manufactures in Scotland and also has some retail outlets, served 120,000 customers in the first half. Its French and Dutch operations accounted for 6 per cent of sales.

Mr Prior estimated that the



John Prior holds 30% of UK workwear market

group had about 30 per cent of the UK workwear market. Some custom had been gained through smaller rivals going bust and since Bodywork International had started to withdraw from the sector.

Earnings per share rose to 8.14p (7.31p). The interim dividend is 1.5p (1.6p).

## COMMENT

In the five years after it joined the main market in early 1985, Alexandra showed compound earnings growth of 29 per cent a year. While the pace has slowed, this year because of constraints on UK demand and a blip in capital spending, the improvement in trading margins shows that the company's premium rating is justified. The only quibble with these figures might be that the redundancy costs were taken below the line. Although the scale of the reorganisation was extraordinary, the management is, rightly, not the sort to shy away from other moves to improve production efficiency. The benefits of its semi-automated garment handling system will show through in years to come and the related borrowings should already be down by the year end. A full-year forecast of 28m gives a prospective p/e of a little more than 12 on yesterday's close of 197p, which is fair value. In a fairly tight market, it could be one for the private client.

## Wallcoverings push Walker Greenbank 24% higher to £4m

By Andrew Hill

WALKER Greenbank's decision to concentrate on its wallcoverings business helped push up first-half profits by 24 per cent, from £3.27m to £4.05m before tax, and the erstwhile mini-conglomerate is now poised to expand through acquisition.

Mr Charles Wightman, Walker's chief executive, said yesterday: "The acquisitions we are looking at are strategic; they are in a market sector and a business that we understand very well [wallcovering manufacturing and distribution] and they will all generate substantial additional organic profits under our management."

Walker was hit by losses at its Alker International shipfitting subsidiary in 1988 and has sold 13 of its 16 non-core subsidiaries since last September. Alker is one of five businesses which it has sold since the end of the half year on August 4.

The disposal programme reduced Walker's turnover from £65.4m to £42.5m in the period, and operating profits from £4.62m to £3.93m. However, the disposal programme and cash flow from the wallcoverings business have helped wipe out borrowings which were £25m just over a year ago, leaving the group with £5m of cash, and £123,000 of interest receivable, compared with an interest charge of £1.45m in the first half of 1989-90.

Earnings per share rose from 2.43p to 3.01p and the group declared an interim dividend of 1.2p (1p).

Mr Wightman said Walker would be happy to borrow up to about £5m to finance acquisitions in the UK and continental Europe, but he added that the group was considering buying one target - a medium-sized British wallcoverings manufacturer - with a combination of cash and new shares.

Walker said market conditions were difficult and probably would not be eased by the one point drop in interest rates announced last Friday.

The group is not dependent on the health of the UK housing sector because some 80 per cent of its wallcoverings business is generated in the commercial contract market.

However, Mr Wightman said the group was well-placed to take advantage of any improvement in the economic climate. "I don't think there is any company in this sector that will publish results as good as this," he added.

## COMMENT

Walker's strategy of slimming down to core businesses seems to be working, but it will take some time for shareholders to see the benefits of the diet come through to the share price. The wallcoverings business did push up profits in the first half of 1989-90, but the market, as Mr Wightman himself admits, is not booming. Even if interest rates come down further, potential investors are likely to ignore smaller companies' fortunes until they see how their larger counterparts are performing. Walker's shareholders, who have had more than their fair share of suffering in the last two years, may be wary of grand expansion plans, but they are unlikely to sell out at this level. Based on forecast pre-tax profits of £5.5m for the full year, Walker's shares - up 1p at 47p yesterday - are on a multiple of about 7.5 times prospective earnings.

Reflecting difficult market conditions, sales of pensions products declined.

New sales of annual pensions premiums fell by 9 per cent to £5.2m. Sales of single premium pensions slipped 10,000 to £2.5m.

Mr David Jubb, chief executive, said the market had been adversely affected by recent legislative changes and legal uncertainty arising from a European Court judgment in the case of Barber versus Guardian Royal Exchange.

## Hoskyns to acquire German software house

By Alan Cane

HOSKYNs, the major computing services company quoted in London in which Cap Gemini-Sogefi of France took a majority stake earlier this year, is buying a German software house as part of its strategy to develop its business in mainland Europe.

The German company, Technodata (Technodata Bero fuer Organisations und EDV-Beratung), specialises in software for the construction industry running on Digital Equipment computers.

It made a pre-tax profit of DM3.8m in the year to June 90 on sales of DM21.9m. The founder director, Dietbert Moench, will continue to run Technodata as part of the Hoskyns group.

Hoskyns already owns the German computer company Program-Standard Computer-systeme, a supplier of Digital Equipment computers in Ger-

many and a leading provider of computer systems for the German wholesale distribution market. Hoskyns bought Program-Standard last year.

Consideration for Technodata will be a total of up to 3.5m Hoskyns shares, valuing Technodata at £11m at Hoskyns' middle market share price of 384p. The initial consideration will be 2m Hoskyns shares with a deferred consideration of up to 1.5m Hoskyns shares based on Technodata's profits for the period ending in October 1991.

CGS has agreed to buy 1.4m of the initial consideration shares from the vendors. The vendors of Technodata have undertaken to retain the balance of the shares and any shares issued to them by way of deferred consideration until CGS makes its agreed offer for the Hoskyns shares it does not own in 1992 or 1993.

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**MINES—Contd.**[illegible][illegible][illegible]

Personnel	17	1		
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Group 20p	21			
Grp see PAPER, PRINTING, ADVERTISING				
Magz Ltr. 1p	21			
Ents Sp	21			
rcaya Hides see MINES & Metallurgical				
on Group 1p	21			

**NOTES**

indicated, prices and net dividends are in pounds and are 25p. Estimated price/earnings ratios are based on latest annual reports and accounts and, where available, on half-yearly figures. P/E's are calculated on a basis, earnings per share being computed after taxation and after the ACT where applicable. P/E's indicate 10 per cent or more difference in "all" distribution. Covers are based on distribution; this compares gross dividend costs with total costs, excluding exceptional profits/losses to the extent of offsettable ACT. Yields are based on gross, adjusted to ACT of 25 per cent, and allow for distribution and rights.

...prior charges at the value, converted  
...marked in relation to the  
...markets then have been adjusted to allow f  
...for cash  
...be increased or resumed  
...be reduced, passed or deferred  
...non-residents on application  
...report awaited  
...ally UK listed; dealings permitted under r  
...listed on Stock Exchange and company a  
...same degree of regulation as listed securities  
...ly listed.

to previous dividend or dividend, rights same as for common stock;  
or reorganization in program  
able  
lim; reduced final and/or reduced earnings  
dividend; cover on earnings updated by inter  
ercent.  
for conversion of shares not now ranking for  
ranking only for restricted dividend.  
not allow for shares which may also rank for  
a future date. No P/E usually provided.  
e  
France, Fr. French France vs. Yield based on  
very 8 1/4 Rate stays unchanged until maturity

1. **Dividend**—A dividend is a payment made by a corporation to its shareholders. It is a share of the corporation's earnings. Dividends are usually paid in cash, but can also be paid in stock or other property. Dividends are typically paid quarterly, but can also be paid annually or semi-annually. Dividends are a key component of a company's total return to shareholders.

based on prospectus or other official estimates of dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualized dividend yield on latest annual earnings. M Dividend as a percentage of prospectus or other official estimates for 1988. N Dividend as a percentage of prospectus or other official estimates for 1987. O Gross R Forecast annualized dividend yield on prospectus or other official estimates for 1987. S Dividend yield on prospectus or other official estimates for 1987. W Pro Forma Figures. Z Dividend total to date. ex dividend; in ex scrip issue; or ex rights; in ex rights issue.

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## AUTHORISED UNIT TRUSTS

Section	Unit	Life	Cost
Section 1	Unit 1	Life 1	Cost 1
Section 2	Unit 2	Life 2	Cost 2
Section 3	Unit 3	Life 3	Cost 3
Section 4	Unit 4	Life 4	Cost 4
Section 5	Unit 5	Life 5	Cost 5
Section 6	Unit 6	Life 6	Cost 6
Section 7	Unit 7	Life 7	Cost 7
Section 8	Unit 8	Life 8	Cost 8
Section 9	Unit 9	Life 9	Cost 9
Section 10	Unit 10	Life 10	Cost 10
Section 11	Unit 11	Life 11	Cost 11
Section 12	Unit 12	Life 12	Cost 12
Section 13	Unit 13	Life 13	Cost 13
Section 14	Unit 14	Life 14	Cost 14
Section 15	Unit 15	Life 15	Cost 15
Section 16	Unit 16	Life 16	Cost 16
Section 17	Unit 17	Life 17	Cost 17
Section 18	Unit 18	Life 18	Cost 18
Section 19	Unit 19	Life 19	Cost 19
Section 20	Unit 20	Life 20	Cost 20
Section 21	Unit 21	Life 21	Cost 21
Section 22	Unit 22	Life 22	Cost 22
Section 23	Unit 23	Life 23	Cost 23
Section 24	Unit 24	Life 24	Cost 24
Section 25	Unit 25	Life 25	Cost 25
Section 26	Unit 26	Life 26	Cost 26
Section 27	Unit 27	Life 27	Cost 27
Section 28	Unit 28	Life 28	Cost 28
Section 29	Unit 29	Life 29	Cost 29
Section 30	Unit 30	Life 30	Cost 30
Section 31	Unit 31	Life 31	Cost 31
Section 32	Unit 32	Life 32	Cost 32
Section 33	Unit 33	Life 33	Cost 33
Section 34	Unit 34	Life 34	Cost 34
Section 35	Unit 35	Life 35	Cost 35
Section 36	Unit 36	Life 36	Cost 36
Section 37	Unit 37	Life 37	Cost 37
Section 38	Unit 38	Life 38	Cost 38
Section 39	Unit 39	Life 39	Cost 39
Section 40	Unit 40	Life 40	Cost 40
Section 41	Unit 41	Life 41	Cost 41
Section 42	Unit 42	Life 42	Cost 42
Section 43	Unit 43	Life 43	Cost 43
Section 44	Unit 44	Life 44	Cost 44
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Section 47	Unit 47	Life 47	Cost 47
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Section 76	Unit 76	Life 76	Cost 76
Section 77	Unit 77	Life 77	Cost 77
Section 78	Unit 78	Life 78	Cost 78
Section 79	Unit 79	Life 79	Cost 79
Section 80	Unit 80	Life 80	Cost 80
Section 81	Unit 81	Life 81	Cost 81
Section 82	Unit 82	Life 82	Cost 82
Section 83	Unit 83	Life 83	Cost 83
Section 84	Unit 84	Life 84	Cost 84
Section 85	Unit 85	Life 85	Cost 85
Section 86	Unit 86	Life 86	Cost 86
Section 87	Unit 87	Life 87	Cost 87

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**Continued on next page**

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## CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGES

## Dollar and sterling retreat

THE DOLLAR and sterling lost ground yesterday, with the US currency falling to a record low against the pound, while the Bank of England bought the pound as it hovered just above the DM3.00 level.

President George Bush signed an emergency budget bill enabling US Government departments to keep functioning, but the markets were sceptical about the likely success of a credible budget cutting agreement by the time the interim bill runs out on October 19.

An effective budget package may lead to lower interest rates, putting downward pressure on the dollar, but the currency is also suffering from the perceived lack of cohesion in US policy making.

After falling to a record low of DM1.525, the dollar finished in London at an all time closing low of DM1.525 compared with DM1.5345 on Monday. In Frankfurt it was fixed at a record low of DM1.523 without intervention by the Bundesbank. Against the Japanese yen, the US currency declined to ¥130.30 from ¥130.65, but finished above the Tokyo close of ¥129.95. It also fell to FF5.105 from FF5.1375 at the London close and was fixed in Paris at FF5.105, the lowest level since April 1981. It

also weakened against the Swiss franc to Sfr1.370 from Sfr1.3840. The dollar's index fell to 60.9 from 61.0.

The Bank of England bought a small amount of sterling, but this appeared to be a move to steady the currency after its recent volatility, rather than to defend any particular rate. Selling of the pound was seen from a large Middle Eastern bank, probably to take profits after sterling's sharp rise on the exchange rate mechanism of the European Monetary System.

Dealers suggested that despite the short-term profit taking, there is also strategic buying of sterling at present, in the belief that it will move up again once the dust created by ERM entry has settled. Within the system the pound was 2.37 per cent above its central rate against the weakest

placed Italian lire, against 2.94 per cent on Monday. The pound touched a low of DM2.975, but traded slightly above DM3.00 for most of the day, closing at DM3.0050 against DM3.0000 on Monday.

Sterling also fell 35 points to \$1.9705, while declining to FF10.0600 from FF10.1435; to Sfr2.5175 from Sfr2.5350; and to ¥256.75 from ¥258.00. Other members of the ERM traded fairly steadily, but the D-Mark was given a mild boost by the weakness of the dollar.

The French franc was also firm, prompting some speculation about lower official interest rates in Paris. Last week the French Finance Ministry ruled out an early cut in rates because of the Gulf crisis, but call money fell to 5% per cent yesterday, below the Bank of France's 9% per cent intervention rate.

EUROPEAN CURRENCY UNIT RATES									
	Unit	Current rate	% change from Oct 9	% change from Oct 8	% change from Oct 7	% change from Oct 6	% change from Oct 5	% change from Oct 4	% change from Oct 3
Spanish Ptas	166.637	166.637	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
French Franc	6.55957	6.55957	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
German Mark	1.93627	1.93627	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Italian Lire	2.36360	2.36360	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Japanese Yen	136.77	136.77	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Swiss Franc	2.00	2.00	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Belgian Franc	36.3636	36.3636	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Dutch Guilder	2.36360	2.36360	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Portuguese Escudo	200.482	200.482	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Irish Punt	7.87564	7.87564	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Spanish Ptas	166.637	166.637	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01

For central rates set by the European Commission. Conversion rates are in descending order of strength. Percentage changes are for the month change (month 1 week change). Percentage changes are for the month change (month 1 week change). Percentage changes are for the month change (month 1 week change).

POUND SPOT - FORWARD AGAINST THE POUND									
	Unit	Current rate	% change from Oct 9	% change from Oct 8	% change from Oct 7	% change from Oct 6	% change from Oct 5	% change from Oct 4	% change from Oct 3
US Dollar	1.9705	1.9705	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Japanese Yen	166.637	166.637	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
German Mark	3.0050	3.0050	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Italian Lire	2.36360	2.36360	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Japanese Yen	166.637	166.637	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Swiss Franc	2.00	2.00	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Belgian Franc	36.3636	36.3636	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Dutch Guilder	2.36360	2.36360	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Portuguese Escudo	200.482	200.482	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Irish Punt	7.87564	7.87564	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01

Commercial rates taken from the end of London trading. 52-month forward dollar 4.94-4.95pm. 12 Month 4.94-4.95pm.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR									
	Unit	Current rate	% change from Oct 9	% change from Oct 8	% change from Oct 7	% change from Oct 6	% change from Oct 5	% change from Oct 4	% change from Oct 3
Japanese Yen	130.30	130.30	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
German Mark	3.0050	3.0050	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Italian Lire	2.36360	2.36360	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Japanese Yen	130.30	130.30	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Swiss Franc	2.00	2.00	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Belgian Franc	36.3636	36.3636	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Dutch Guilder	2.36360	2.36360	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Portuguese Escudo	200.482	200.482	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Irish Punt	7.87564	7.87564	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01

Commercial rates taken from the end of London trading. 52-month forward dollar 4.94-4.95pm. 12 Month 4.94-4.95pm.

EURO CURRENCY INTEREST RATES									
	Unit	Current rate	% change from Oct 9	% change from Oct 8	% change from Oct 7	% change from Oct 6	% change from Oct 5	% change from Oct 4	% change from Oct 3
3 Month	1.00	1.00	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
6 Month	1.00	1.00	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
12 Month	1.00	1.00	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
3 Month	1.00	1.00	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
6 Month	1.00	1.00	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
12 Month	1.00	1.00	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01

Long term Eurocurrency rates for 12 months. 52-month forward dollar 4.94-4.95pm. 12 Month 4.94-4.95pm.

EXCHANGE CROSS RATES									
	Unit	Current rate	% change from Oct 9	% change from Oct 8	% change from Oct 7	% change from Oct 6	% change from Oct 5	% change from Oct 4	% change from Oct 3
US Dollar	1.9705	1.9705	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Japanese Yen	166.637	166.637	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
German Mark	3.0050	3.0050	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Italian Lire	2.36360	2.36360	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Japanese Yen	166.637	166.637	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Swiss Franc	2.00	2.00	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Belgian Franc	36.3636	36.3636	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Dutch Guilder	2.36360	2.36360	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Portuguese Escudo	200.482	200.482	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Irish Punt	7.87564	7.87564	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01

For 1.0000 French Fr. per 100 Lira per 1,000.000. 52-month forward dollar 4.94-4.95pm. 12 Month 4.94-4.95pm.

## MONEY MARKETS

## UK rates firmer

THE MOOD of euphoria showed signs of fading in London's financial markets yesterday. Money market rates were slightly firmer and prices of short sterling futures declined as sterling fell back towards the DM3.00 level on the foreign exchanges.

Three-month sterling interbank rose to 13 1/4-13 1/2 per cent from 13 1/4-13 1/2 per cent. Twelve-month money was quoted at 13 1/4-13 1/2 per cent against 13 1/4-13 1/2 per cent.

Short sterling futures continued to trade quite actively

UK sterling bank base lending rate

14 per cent

from October 8, 1990

on Liffe, but showed little overall movement. December delivery opened lower at 86.84 and touched a low of 86.77, before closing at 86.82 compared with 86.88 previously.

A day-to-day credit shortage of £200m on the money market was initially forecast by the Bank of England, but this was revised to £300m in the afternoon. The authorities did not operate in the bill market during the day, but provided late assistance of £100m.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £200m, with bank balances below

target absorbing £5m. These outweighed Exchequer transactions adding £240m to liquidity and a fall in the note circulation of £25m.

In Brussels the Belgian National Bank cut the rate on its main instrument of credit policy, three-month Treasury bills, by 0.05 per cent to 8.90 per cent. Rates on one and two-month bills were reduced by a similar amount to 8.85 and 8.90 per cent respectively.

Four-month paper, issued by the Securities Regulation Fund, was also cut by 0.05 per cent to 9.05 per cent.

The relative strength of the Belgian franc in the EMS has allowed the central bank to cut rates steadily in recent months. The last reduction, also of 0.05 per cent, was made on September 24.

In Frankfurt call money remained at 8.05 per cent, as the money market awaited the outcome of this week's securities repurchase agreement tender. The Bundesbank offered liquidity through a 28-day pact at variable bid rates. This is to replace an earlier 28-day facility of DM2.1bn expiring today.

Rates at the tender are expected to be at or above the 8 per cent Lombard emergency financing rate, and dealers hope the central bank will fully replace the expiring agreement.

## FT LONDON INTERBANK FIXING

Oct 9	Oct 8	Oct 7	Oct 6	Oct 5	Oct 4	Oct 3	Oct 2	Oct 1	Oct 0
1.9705	1.9705	1.9705	1.9705	1.9705	1.9705	1.9705	1.9705	1.9705	1.9705

The fixing rates are the arithmetic mean rounded to the nearest one-tenth, of the bid and offered rates for 240m quoted to the market by five reference banks at 11.30 a.m. and working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Kommerzbank and Paribas.

Money Rates

NEW YORK

(London time Oct 9)

Overnight

3 Month

6 Month

12 Month

18 Month

24 Month

30 Month

36 Month

42 Month

48 Month

54 Month

60 Month

66 Month

72 Month

78 Month

84 Month

90 Month

## FINANCIAL FUTURES AND OPTIONS

LIVE LONG-TERM FUTURES

30 Year US Treasury

15 Year US Treasury

10 Year US Treasury

5 Year US Treasury

1 Year US Treasury

6 Month US Treasury

3 Month US Treasury

1 Month US Treasury

1 Week US Treasury

1 Day US Treasury

1 Hour US Treasury

1 Minute US Treasury

1 Second US Treasury

1 Tenth US Treasury

1 Hundredth US Treasury

1 Thousandth US Treasury

1 Ten-thousandth US Treasury

1 Hundred-thousandth US Treasury

1 Millionth US Treasury

1 Billionth US Treasury

1 Trillionth US Treasury

1 Quadrillionth US Treasury

1 Quintillionth US Treasury

1 Sextillionth US Treasury

1 Septillionth US Treasury

1 Octillionth US Treasury

1 Nonillionth US Treasury

1 Decillionth US Treasury

1 Undecillionth US Treasury

1 Duodecillionth US Treasury

1 Tredecillionth US Treasury

1 Quattuordecillionth US Treasury

1 Quindecillionth US Treasury

1 Sexdecillionth US Treasury

1 Septendecillionth US Treasury

1 Octodecillionth US Treasury

1 Novemdecillionth US Treasury

1 Vigintillionth US Treasury

1 Unvigintillionth US Treasury

1 Duovigintillionth US Treasury

1 Trivigintillionth US Treasury

1 Quadvigintillionth US Treasury

1 Quinavigintillionth US Treasury

1 Sexavigintillionth US Treasury

1 Septuavigintillionth US Treasury

1 Octuavigintillionth US Treasury

1 Novuavigintillionth US Treasury

1 Duovigintillionth US Treasury

1 Trivigintillionth US Treasury

1 Quadvigintillionth US Treasury

1 Quinavigintillionth US Treasury

1 Sexavigintillionth US Treasury

1 Septuavigintillionth US Treasury

1 Octuavigintillionth US Treasury

1 Novuavigintillionth US Treasury

1 Duovigintillionth US Treasury

1 Trivigintillionth US Treasury

1 Quadvigintillionth US Treasury

## CANADA

[illegible]

**FINANCIAL TIMES**

**NOTES**—Prices on this page are as quoted on the individual exchanges and are last traded prices. (a) unavailable. # Dealings suspended. \* Ex dividend. \*\* Ex scrip issue. \*\* Ex rights. + Ex alt.  
† Auction prices unavailable from source.

## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

هكذا صنع القوم

NYSE COMPOSITE PRICES

NASDAQ NATIONAL MARKET

3pm prices October 9

Table with multiple columns: Stock, High, Low, Last, Change, Volume, etc. Includes a detailed list of NYSE composite prices.

Table with multiple columns: Stock, High, Low, Last, Change, Volume, etc. Includes a detailed list of NASDAQ national market prices.

Notes regarding stock prices and market data, including information about dividends and price adjustments.

AMEX COMPOSITE PRICES

3pm prices October 9

Table with multiple columns: Stock, High, Low, Last, Change, Volume, etc. Includes a detailed list of AMEX composite prices.

COMPUTER NETWORKING
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## AMERICA

## Weak dollar and dismay over budget upset Dow

## Wall Street

**DISMAY** OVER the budget deficit reduction pact combined with higher oil prices and a weaker dollar to push US equities broadly lower yesterday morning in light trading, writes Karen Zagor in New York.

At 1:30 pm, the Dow Jones Industrial Average was down 42.32 at 2,481.44 on fairly thin volume. The stock market retreat was broadly based, with declining issues leading those advancing by 11 to three. At 1 pm, the Standard & Poor's 500 index was off 5.48 at 338.59. On Monday, the Dow closed 13.12 higher at 2,523.76.

Stocks moved in tandem with bonds yesterday morning, when the treasury's benchmark 30-year long bond was 18 lower, yielding 8.94 per cent. Both the bond and equity markets were shaken by the seeming inability of Congress to agree on a credible budget package.

Increasing tension in the Middle East further depressed the markets while oil prices rallied. At mid-session, November crude oil was up \$1.51 a barrel at \$40.46.

Wall Street was also upset by weakness in overseas markets, with stock prices ending mixed in Tokyo and London stocks moving lower.

Motorola plunged \$6 to \$63.30 in heavy trading after the elec-

tronics maker reported disappointing third-quarter earnings.

Although Motorola's profits of 78 cents a share were higher than the 68 cents reported a year earlier, analysts had expected the company to report earnings of between 82 cents and \$1.24.

Travelers Insurance lost another 3% to \$13.91 in spite of an announcement of plans to preserve capital and support its troubled real estate portfolio investments.

Dow Jones tumbled \$2 to \$204 after an analyst at Goldman Sachs reduced the earnings forecast for the company. On Monday, Dow Jones reported lower-than-expected third-quarter earnings.

General Cinema added \$1% to \$18.44 after the company said it had sold its entire investment in the UK's Cadbury Schweppes apart from 18.2m ordinary shares which are held in escrow. General Cinema said the sale would result in an after-tax gain of about \$1.10 a share in the current quarter.

Hanson's American deposit receipts lost \$1 to \$18.94 after the company said it would reduce its investment in Newmont Mining to about 28 per cent from 49 per cent. Newmont Mining fell \$1% to \$38.94.

Upjohn added \$1% to \$38 in a second day of heavy trading amid rumours that the company was a takeover target.

Upjohn would not comment on the stock movement.

Among other blue chip issues, IBM fell \$2 to \$107.74, Philip Morris moved \$1 lower to \$46.14, Boeing rose \$1 to \$44.44, and General Electric lost \$1% to \$53.34.

Oil stocks, which have provided a focal point for the stock market since the Gulf crisis began, were mixed, as oil futures soared past the \$40-a-barrel level. Mobil slipped \$1 to \$50.14, Occidental Petroleum was unchanged at \$18.44, and Amoco was off \$% to \$56.34.

Among oil-service company issues, Schlumberger fell \$% to \$62.34, Dresser Industries added \$% to \$19.44, and Halliburton slipped \$% to \$53.34.

## Canada

**TORONTO** stocks slipped further at midday after opening lower on higher oil prices, renewed concerns about the Middle East and questions over the US dollar. The composite index lost 9.4 to 3,157.44 on volume of 12m shares. Declines led advances by 12 to 170.

Canada Packers formed C% to C% after it said it planned to dispose of more assets in the near few months.

Among active shares, Nova added C% to C%, Canadian Pacific was flat at C%17.74, Laidlaw slipped C% to C%20.44, and BCE Inc lost C% to C%35.

## Political uncertainty haunts the Philippines

The failure of the latest revolt is unlikely to reassure investors, writes Greg Hutchinson

**RELIEF** WITH the suppression of a military revolt at the weekend in the Philippines has lifted the Manila stock market 11 per cent this week. But the political and economic uncertainty - which has caused the Philippines' twin stock markets to shed 36 per cent of their value in the three months before the rebellion - remains.

The surrender at the weekend of rebel leader Colonel Alexander Noble, who had seized military camps and proclaimed independence for Mindanao island last Thursday, is unlikely to reassure investors that political stability will last for long. Indeed, Mr Fidel Ramos, defence secretary, warned this week that he could not rule out further coup attempts. Last week's rebellion followed a serious revolt in December 1989.

The Manila and Makati bourses were never large, but before last December's bloody coup attempt there was a prevalent view that they would be strong performers into the 1990s. They were expected to mirror a robust performance in the real economy.

Last November the Manila composite index stood at over 1,850 and gross national prod-

uct (GNP) was growing at about 6 per cent annually. Yesterday, the index stood at 571.51 and most brokers believe it could test 480, irrespective of whether peace breaks out in the Gulf. Even before the rise in international oil prices sparked by Iraq's August 2 invasion of Kuwait, the economy was thought to be growing at less than 3.5 per cent.

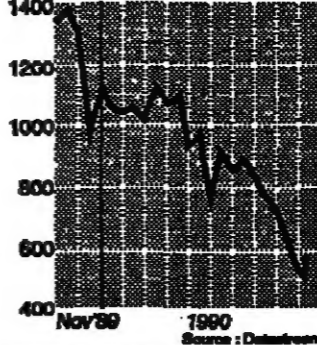
A severe drought, a power shortage, a destructive earthquake and typhoon-spawned floods have all weighed on the economy. Mr George Uy-Tico, president of Philippine Asia Equity Securities, a First Pacific company, predicts GNP growth may be only 2.5 per cent this year - "and next year it could even be worse".

"I am very, very concerned looking at 15 to 18 months down the line," he says, citing prevailing high interest rates - the prime rate is now 27 per cent - and sharply lower earnings growth expected for nearly all listed Philippine companies. "Much depends on the Middle East outcome and hard decisions the government needs to make," he says.

Among the effects of the Gulf crisis on the Philippines, Iraq's takeover of Kuwait has dislocated about 70,000 Filipino

## Philippines

Manila S.E. composite price index



contract workers in the Middle East, causing a sudden contraction of foreign exchange remittances to the Philippines.

Also, the government lifted oil prices by an average of 32 per cent late last month, although the rise was largely offset by a tax adjustment which benefited the country's oil wholesalers and petroleum consumers, ensuring maintenance of an unrealistically high government oil price subsidy. The oil price decision has increased pressure on the country's budget and balance of payments deficit.

Meanwhile, investor pessimism becomes further entrenched with every Manila bomb attack - mostly blamed on right-wing army rebels and targeted against high-profile local and foreign businesses.

Recent attacks have been against American companies, an apparent attempt to scare away foreign investors and underline opposition to the continued presence of US military bases in the country. "If the objective is to frighten us, they are succeeding," said an executive of an international company, where a dynamite device was detonated just before it was due to explode late last month.

As far as the stock market is concerned, the impact of the bombings and the Gulf crisis is summed up by Mr Patrick Garcia, vice-president of Manila brokers Garcia and Associates: "Why buy cheap stocks when you know they will get cheaper by the day?"

Ms Carolyn Kabitig, research manager at Ansonco Hagedorn Securities, the Philippines' largest broker, sees lean times - both for values and volumes - into the second quarter of next year. Provided

the Gulf crisis has eased, the market is expected to pick up slowly from mid-1991 as campaign spending begins for the May 1992 presidential elections, she says.

The stocks with a better chance of weathering the continuing storm, according to Ms Kabitig and Asia Securities' Mr Uy-Tico, are Philippine National Bank and Philippine Long Distance Telephone. The bank stock is little affected by the fall-off in Middle East remittances and is seen as benefiting from the country's high interest rate regime.

The telephone company, which is also listed in New York, should receive a boost from foreign exchange gains due to the depreciating Philippine peso. Also a 20 per cent reduction in international call charges earlier this year has raised company revenue through increased usage, notes Ms Kabitig.

Country and regional funds are taking a cautious position on Philippine stocks. Where eastern Asian regional funds have allocated 9 per cent of their portfolio to Philippine listed companies, now they earmark 5 per cent and, in one case, only 1 per cent to Manila and Makati stocks.

## EUROPE

## Rally proves short-lived as oil price moves higher

**THE CONTINENTAL** rally was short-lived, as bourses resumed their bearish course yesterday. Investors were encouraged to take profits by the rising oil price and remarks by Iraqi President Saddam Hussein, writes Karen Zagor in New York.

**FRANKFURT** fell sharply in the last half hour as traders, after hearing that US equities were moving lower in the pre-market in London, marked down prices to avoid taking a long position on board. One broker said that, of the few institutional orders he received, most were on the sell side.

The DAX index lost 32.12 or 2.2 per cent to 1,433.41, while the FAZ index, calculated at mid-session, was 3.79 or 0.6 per cent lower at 618.37. Volume remained thin at DM3.6bn after DM4bn on Monday.

Losses were across the board, with Deutsche Bank falling DM12.30 to DM607.50 and Siemens down DM13.50 at DM549.50.

Allianz, the insurer, was particularly hard hit, falling DM120 to DM215, as the prospect of a fresh-half profit, which was its recently announced rights issue weighed on the share price. Dealers said that the syndicate involved in the placing of the new stock was not strong enough to support the share price in the current market climate.

**AMSTERDAM** sank under an assault of bad news from the corporate sector. The CBS tendency index fell 2.7 to 92.5 in thin trading.

Nedlloyd, the energy and transport group, plunged FI 6.80 or 16.5 per cent to FI 37 after announcing that it expected an unspecified net loss in 1990 after a net profit of FI 252m in 1989. The company also planned to cut 420 jobs at home. The stock has lost 66.3 per cent since its 1990 high of

FI 109.80. To add to the gloom, speculation mounted that KLM, the troubled national airline, would omit to pay a dividend for the 1990/91 year. KLM, which paid FI 1.80 a share the previous year, said last week it could under a considerable loss this year because of greater fuel, insurance and depreciation costs. The stock eased FI 1 to FI 20.40.

Philips, which said it would cut 4,900 jobs in its information systems division as part of its restructuring plan, fell 60 cents to FI 20.50.

**PARIS** fell 2.3 per cent on profit-taking, with the CAC 40 index losing 34.70 to 1,551.46. Turnover remained light, estimated at FF1.3bn.

Rumours that Paribas was looking to sell its controlling stake in SCOA, the trading company, pushed SCOA FF1.50 or 9.3 per cent higher to FF17.60 in heavy volume of 403,600 shares.

Accor, the hotels group, eased less than the overall market, falling FF1.10 to FF7.10 after announcing a 50 per cent rise in first-half profits, which was in line with expectations. By contrast, Dumez, the construction group, dropped FF1.04 to FF1.97 after reporting poor first-half figures; its merger partner, Lyonnaise des Eaux, fell FF0.30 to FF4.47, but GYM Entreprises, described by one analyst as the jewel in the Dumez crown, rose FF1.05 to FF3.64.50.

Profit-taking pulled Eurotunnel FF2.15 lower to FF4.45 after the confirmation of the group's refinancing package. Pernod, the drinks company, lost FF0.77 to FF7.93 after saying it was selling its champagne subsidiary, but the higher oil price lifted Elf Aquitaine FF0.9 to FF7.60.

**MILAN** eased lower in a lacklustre session with light

foreign selling; domestic mutual funds were absent. The oil price rise above \$40 a barrel soured sentiment, as Italy imports more than 90 per cent of its energy needs. Volume was estimated to be around Tuesday's 1,874m, a low for the year. The Comex index fell 4.6 to 598.55.

"No one wants to get involved just before the end of the account," one dealer said.

Fiat remained under pressure after industry data earlier in the week showed that its share of the domestic car market was continuing to shrink. The stock fell LI50 to LI,540.

Generally, the insurer, fell LI85 to LI8,100, although dealers said its price had been supported recently by short-covering. The telecommunications sector was also vulnerable, and Stet eased LI4 to LI,880.

**ZURICH** eased in limited volume on worries about the effect of the rising oil price on inflation, although the September inflation figure was in line with expectations. The Credit Suisse index fell 2.0 to 502.5.

**STOCKHOLM** fell in reaction to declines on other markets, with the Allshare index down 8.8 at 983.0. The bourse said that it had delisted shares in Nyckeln, one of the stocks suspended two weeks ago because of a liquidity crisis, but would allow official trading. Its restricted B shares fell to SKr7 before recovering to SKr30, down SKr70.

SCA free Bs eased SKr1 to SKr87 after the forestry group reported a smaller-than-expected decline in eight-month profits.

**OSLO** hovered above its low for the year as fear of war in the Gulf resurfaced. The all-share index lost 7.57 to 529.67.

**MADRID** fell prey to profit-taking, with the general index losing 3.30, or most of Monday's rise, to 219.54.

## ASIA PACIFIC

## Profit-taking starts as Nikkei nears 24,000

## Tokyo

**EQUITIES** continued Monday's good rally in morning trade yesterday, but later fell from the day's highs on active profit-taking as stocks approached 24,000, writes Martina Gannon in Tokyo.

However, the leading index closed above the important 23,000 level at 23,485.11, down 124.89. Volume rose to 450m shares from 400m. The day's high of 23,971.44 came soon after the opening as stocks rose on the back of a strong yen and firm overseas markets.

The low for the day, shortly before the close, was 23,261.70. Advances led falls by 583 to 361, with 130 issues unchanged. The Toxip index of all first section stocks touched up 1.50 to 1,738.40, and the second section index also higher. In London, the ISE/Nikkei 50 index receded 11.61 to 1,351.83.

Large-capital issues, including steel, trading houses, electric powers and contractors, extended Monday's gains in morning trading. High-technology issues were dull.

Later, as the leading index neared 24,000, investors grew wary and began to take profits. The slowing of the yen's advance against the dollar, and the consequent easing of bond prices, added to the market's caution. There was also some clearing of positions before today's national holiday.

Mr Hiroaki Ozaki of Kokusai Securities said: "Everybody expects the market to become mixed when the Nikkei reaches 24,000 as financial institutions, which renewed their funds on October 1, start to take profits." He added that it was a little risky to buy at this level, beyond which a market recovery was uncertain. High-technology shares fell

sharply as selling gathered pace. Sony, unpopular as the yen strengthened because about 60 per cent of its sales are overseas, lost Y160 to Y6,770. Pioneer Electronic retreated Y130 to Y4,590.

Stocks popular with speculators plunged. Honda Paper, the day's second most active issue, dropped a further Y500 to Y3,200. Drug shares were also weak, with Daiichi Pharmaceutical falling Y30 to Y2,360 and Yamanouchi Pharmaceutical Y70 to Y2,770.

Financials were mixed. Bank of Tokyo shed Y15 to Y935, but Fuji Bank added Y10 to Y1,800. Sumitomo Bank, clouded by allegations of illegal loan dealing by a former branch manager, was untraded.

In Osaka, buying of domestically oriented issues dominated trading. Construction,

steels, chemicals and electric railways were among the winners. Exporters, including pharmaceuticals and high-technology shares, lost ground. The OSE average finished at 26,947.78, up 58.34, advancing for the sixth consecutive session, and volume expanded to 31.6m shares from 29.5m.

## Roundup

**WORRIES** about events in the Middle East hung over Pacific Rim markets yesterday. Seoul was closed for a holiday.

**TAIWAN** ended sharply lower on concern that the clashes in Jerusalem overnight, which left at least 19 Palestinians dead, could lead to more tension in the Gulf. The weighted index dropped 148.36, or 6.2 per cent, to 2,465.25. Volume improved to T\$25.39bn from T\$22.37bn.

**SINGAPORE** gave a dismal response to a share offer by Kay Hian James Capel, the brokerage concern, capping a string of progressively unsuccessful flotations. Kay Hian said less than 20 per cent of the 88m shares on offer had been bid for, leaving underwriters with more than 80 per cent. The Straits Times Industrial index lost 4.73 to 1,105.30. Volume fell to S\$36m from S\$40m.

**KUALA LUMPUR** was protected by an absence of selling before the general elections on October 21. In comparison with Singapore issues, recent Malaysian offerings have been over-subscribed, although by smaller margins than in the past. The composite index edged up 0.50 to 474.46 on volume of 20m shares, similar to Monday's level.

This announcement appears as a matter of record only.

## CIBA-GEIGY PLC

£125,000,000

## STERLING COMMERCIAL PAPER PROGRAMME

Programme rating  
Standard & Poor's Corporation  
A-1+

Arranger  
Barclays de Zotte Wedd Limited

Dealers  
Barclays de Zotte Wedd Limited  
Midland Montagu Commercial Paper  
Swiss Bank Corporation

Issuing and paying agent  
Midland Bank plc



BARCLAYS de ZOETE WEDD

September 1990

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY OCTOBER 8 1990										FRIDAY OCTOBER 5 1990										DOLLAR INDEX	
	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Yield	1989 High	1990 Low	Year ago (approx)				
Figures in parentheses show number of lines of stock																						
Australia (78)	134.77	+1.1	101.22	111.30	107.52	107.21	+1.1	7.24	133.36	101.50	111.62	107.26	108.08	108.31	125.85	180.41	125.85	180.41				
Austria (19)	187.82	+0.1	141.07	155.12	148.84	149.76	+0.0	1.82	187.25	142.82	155.93	150.92	148.78	223.83	178.57	183.83	178.57	183.83				
Belgium (61)	134.41	+1.8	100.55	111.00	107.23	104.75	+1.0	5.53	132.26	100.65	110.60	106.37	103.72	160.02	126.67	142.66	126.67	142.66				
Canada (120)	127.60	+0.3	95.83	105.57	101.79	108.39	+0.0	3.78	127.27	96.86	106.43	102.35	106.39	133.61	127.27	154.16	127.27	154.16				
Denmark (33)	246.00	+0.4	194.76	203.17	198.25	198.15	+0.4	1.51	245.08	198.53	204.96	197.11	195.42	277.92	224.05	202.12	224.05	202.12				
Finland (26)	103.36	+0.6	77.53	85.38	82.48	78.53	-0.2	3.49	102.75	78.20	85.93	82.84	78.70	132.29	102.75	125.39	102.75	125.39				
France (123)	133.34	+2.7	101.85	111.78	107.56	105.07	+1.9	3.77	131.72	100.25	110.15	105.93	107.08	108.85	124.99	138.65	124.99	138.65				
Germany (91)	113.07	+4.5	84.92	93.39	90.20	90.20	+3.7	2.49	108.14	82.30	90.45	86.97	83.17	144.63	101.38	103.84	101.38	103.84				
Hong Kong (48)	119.22	+2.4	86.55	96.48	95.12	118.70	+2.5	5.58	118.46	88.83	97.39	98.11	155.42	277.92	224.05	202.12	224.05	202.12				
Ireland (17)	157.24	+0.1	118.10	128.68	125.44	128.89	+4.1	4.12	151.03	114.95	128.31	121.47	121.85	198.57	139.04	102.43	139.04	102.43				
Italy (91)	85.63	+0.3	64.32	70.72	68.31	73.94	+0.1	3.21	85.37	64.98	71.39	68.86	73.55	108.26	80.57	82.28	80.57	82.28				
Japan (454)	158.82	+4.1	95.25	104.74	101.19	104.74	+1.3	4.28	157.82	92.78	101.82	98.08	101.56	144.78	104.43	104.43	104.43	104.43				
Malaysia (35)	187.37	+0.6	140.73	154.74	148.48	194.73	+0.5	3.14	186.23	141.74	155.74	148.78	183.55	230.89	182.96	208.50	182.96	208.50				
Mexico (13)	406.40	+2.8	372.83	405.99	395.02	357.64	+3.0	0.43	482.93	367.55	403.87	398.41	1531.24	561.41	324.53	561.41	324.53	561.41				
Netherlands (42)	133.85	+3.8	100.53	110.54	108.79	105.81	+1.1	5.39	129.01	99.19	107.89	103.78	102.65	148.03	122.56	91.72	148.03	122.56				
New Zealand (18)	55.55	-1.0	41.72	45.88	44.32	47.42	-1.1	7.39	55.08	42.68	46.91	45.11	48.20	75.36	55.55	82.62	55.55	82.62				
Norway (12)	183.32	+2.6	80.55	75.98	72.41	81.47	+2.5	4.44	182.96	80.08	75.57	72.00	78.50	105.19	80.08	82.62	80.08	82.62				
Singapore (25)	151.65	+0.8	113.89	125.25	120.98	121.36	+0.0	3.46	150.89	114.09	126.03	121.20	121.35	208.24	127.46	107.54	208.24	107.54				
South Africa (50)	160.47	+5.9	120.53	132.53	128.02	137.29	+0.8	4.16	151.50	115.20	128.69	121.85	136.41	251.39	151.50	157.13	151.50	157.13				
Spain (42)	139.41	+2.0	104.71	115.14	111.22	101.87	+1.3	5.40	136.74	104.07	114.36	109.29	100.54	182.25	104.07	125.94	104.07	125.94				
Sweden (32)	183.32	+3.3	137.55	141.40	145.25	153.47	+3.1	2.84	179.91	134.64	147.95	142.58	148.89	234.83	153.47	151.00	153.47	151.00				
Switzerland (87)	92.01	+0.8	68.15	75.93	72.41	81.47	+2.5	4.44	91.59	67.30	75.05	72.00	78.50	105.19	67.30	82.62	67.30	82.62				
United Kingdom (300)	123.26	+4.5	130.14	140.09	138.23	130.14	+3.2	5.34	125.76	125.16	138.61	133.31	126.18	176.18	125.76	125.76	125.76	125.76				
USA (533)	126.30	+0.6	94.86	104.31	100.76	126.30	+0.0	3.89	125.82	93.33	104.98	100.59	125.52	148.95	121.30	148.95	121.30	148.95				
Australia (967)	139.41	+3.6	104.70	115.13	111.22	108.23	+2.8	4.32	134.58	102.41	112.53	108.23	105.44	157.85	104.70	129.48	104.70	129.48				
Norfolk (114)	186.41	+2.0	140.01	153.85	148.72	148.13	+1.6	2.07	182.81	139.13	162.88	148.03	148.03	232.29	172.81	232.29	172.81	232.29				
Pacific Basin (659)	126.80	+3.8	95.05	104.58	101.10	105.93	+3.2	1.23	121.91	92.79	101.86	96.06	102.32	192.75	107.82	181.02	107.82	181.02				
Pacific Ex. Japan (165)	122.28	+2.2	94.86	104.31	100.76	122.28	+0.0	3.89	125.82	93.33	104.98	100.59	125.52	148.95	121.30	148.95	121.30	148.95				
North America (653)	126.80	+0.6	94.86	104.31	100.76	126.80	+0.0	3.89	125.82	93.33	104.98	100.59	125.52	148.95	121.30	148.95	121.30	148.95				
Europe Ex. UK (667)	118.82	+2.8	89.24	98.15	94.81	95.24	+2.2	3.52	115.48	87.90	96.90	92.81	93.15	145.92	89.24	94.04	89.24	94.04				
Pacific Ex. Japan (202)	123.28	+1.3	92.59	101.83	98.36	105.28	+1.2	6.26	121.67	92.60	101.77	97.67	104.01	166.52	121.67	121.67	121.67	121.67				
Pacific Ex. World (1816)	123.28	+3.6	98.98	108.43	105.71	107.80	+2.5	2.81	122.84	97.80	105.63	102.28	105.14	173.77	117.12	163.36	117.12	163.36				
World Ex. UK (649)	125.02	+2.3	94.86	104.31	100.76	125.02	+0.0	3.89	125.82	93.33	104.98	100.59	125.52	148.95	121.30	148.95	121.30	148.95				
World Ex. S. & A. (2288)	128.13	+2.6	98.98	108.43	105.72	113.50	+1.9	3.03	123.68	95.20	105.28	101.41	181.84	178.04	154.21	178.04	154.21	178.04				
World Ex. Japan (1845)	123.31	+1.9	89.06	98.08	95.24	118.47	+1.4	4.15	128.48	94.91	108.28	104.12	116.78	151.59	123.31	148.95	123.31	148.95				
The World Index (2359)	129.67	+2.8	97.12	108.90	103.17	113.67	+1.9	3.04	126.03	95.92	105.40	101.37	111.59	152.05	129.67	129.67	129.67	129.67				